

The Berkshire Studies in European History

THE COMMERCIAL REVOLUTION

1400-1776

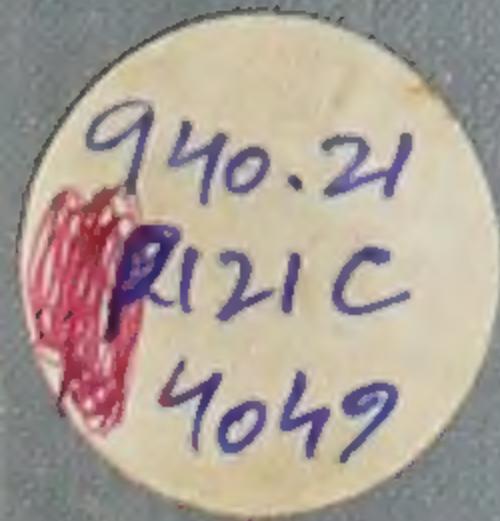
MERCANTILISM—COLBERT—ADAM SMITH

BY

LAURENCE BRADFORD PACKARD

AMHERST COLLEGE

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The Berkshire Studies in European History

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PREFACE

THE college teacher of general European history is always confronted with the task of finding adequate reading for his classes which is neither too specialized and technical nor too elementary. For many topics, including several of the greatest importance, no such material is at the moment available. Moreover, in too many instances, good reading which undeniably does exist is in the form of a chapter in a larger work and is therefore too expensive for adoption as required reading under normal conditions.

The Berkshire Studies in European History have been planned to meet this situation. The topics selected for treatment are those on which there is no easily accessible reading of appropriate length adequate for the needs of a course in general European history. The authors, all experienced teachers, are in nearly every instance actively engaged in the class room and intimately acquainted with its problems. They will avoid a merely elementary presentation of facts, giving instead an interpretive discussion suited to the more mature point of view of college students.

No pretense is made, of course, that these *Studies* are contributions to historical literature in the scholarly sense. Therefore the trappings of scholarship, such as foot-notes and bibliographies, have been purposely omitted. Each author, nevertheless, is sufficiently a specialist in the period of which he writes to be familiar with the sources and to have used the latest scholarly contributions to his subject.

Each *Study* is designed as a week's reading. The division into three approximately equal chapters, many of them self-

PREFACE

contained and each suitable for one day's assignment, should make the series as a whole easily adaptable to the present needs of college classes. The editors have attempted at every point to maintain and emphasize this fundamental flexibility.

Maps and diagrams will occasionally be furnished with the text when specially needed but a good historical atlas, such as that of Shepherd, is presupposed throughout.

R. A. N.

L. B. P.

S. R. P.

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THE COMMERCIAL REVOLUTION

I

THE COMMERCIAL REVOLUTION

From 1400 to 1700 is a period commonly called the Renaissance. Historically speaking, this word Renaissance is used to indicate the general change from the civilization which we call medieval to that in which we live, and which we think of as modern. A great many aspects of civilization were altering; ideas and customs which had existed for centuries were dying out and were being replaced by new. Feudalism, for example, was giving way to the strong central government of kings; the Christian church of the West, for centuries united in obedience to the bishop of Rome, began to split up into independent sections; new methods of warfare appeared, in which gunpowder and standing armies were important; new kinds of architecture succeeded Gothic types of building; new forms of painting, sculpture, music and literary expression became common. Knowledge was expanding; people were learning more about many things, from their own bodies to the stars, about anatomy, disease, the earth, the atmos-

sphere, the movements of the heavenly bodies. What we call the *spirit* of the Renaissance was active; its aspects were eagerness to learn, curiosity, criticism, and enthusiasm for adventure and invention.

It is the economic changes of this period 1400 to 1700 which are described by the term Commercial Revolution. Changes are always going on, of course, in commerce as well as in social and political affairs; revolutions are perhaps as frequent in one as in another. But between 1400 and 1700 changes in methods of conducting business, in trading centers, in shipping, in the financial aspects of commerce and in the theories underlying practice were so numerous, so pronounced and so rapid that the total effect seems to have been revolutionary. Undoubtedly the changes which were transpiring in government, religion and culture helped to accelerate and make more thorough-going those in commerce. Commerce, like most other phases of civilization, passed, between the fifteenth and eighteenth centuries, from medieval to modern form and manner.

To grasp the character and extent of this Revolution certain aspects of medieval commerce must be noted. From about 400 A. D. to nearly 1000 A. D. there was, in Western Europe, very little trade on what we should estimate as a large scale. Travel and the movement of people from one locality to another were difficult and dangerous. People "stayed put" in the Middle Ages; until the time of the crusades there was very little journeying about. The profound ignorance of geography, of places beyond one's immediate locality, helped to create a fear of strange regions and

strangers which amounted to superstition. Real dangers, such as robber barons, pirates, bad roads—or no roads at all—broken bridges—or no bridges at all—provided very effective obstacles to trade. Still more significant, however, was the fact that, under feudalism, Europe was divided into thousands of political units. Few of these units, or fiefs, were large enough in area or in population to need much trade or to provide sufficient demands for marketing on any considerable scale. Even if reasonable law and order existed in some fiefs, there might be little peace and security in neighboring lands. Feudal warfare was common, and was not favorable to the welfare of commerce. Each feudal lord, moreover, collected tolls on traffic and these tolls so increased the cost of goods which had been transported any distance that most people could not afford to buy. Heavy and bulky articles were not often transported; grain, for example, might be plentiful in one region, but so scarce in even an adjacent locality that people were starving. Yet grain could not be transported from the land of plenty to the land of dearth because costs would eat up the profit, or raise the price so high that the starving people could not pay it. Items of small size and comparatively light weight, such as spices and silks or cottons, were the chief articles of trade; they were expensive and rare.

Medieval civilization, therefore, got along with the bare necessities of life. Each community, manor or town, was pretty nearly self-sufficient; within these small centers of population was produced most of what was needed—clothes and food, weapons and tools.

Few surplus products were made because there was little opportunity to sell them outside of the immediate locality.

Commerce was also hindered, in the Middle Ages, by the absence of any standard coinage. Whether it was the lack of *hard money* (cash or sound currency) which prevented trade, or whether it was the small amount of trade which caused the inadequate coinage, it is not necessary, at this point, to inquire. Many of the greater feudal lords minted their own coins; so did some of the towns. But there was no powerful state to make its coins "good" over a fairly large area, to prevent counterfeiting and debasing and to insure that the face value of a coin would be maintained. The local coins issued by the lords or the towns were often good only in a limited neighborhood—like the tokens issued by European cities after the Great War. They were often clipped, sweated and debased by the addition of lead or other alloy. No one trusted their face value, and all money was customarily bitten, or rung on the counter, or weighed when payments were being made. This situation indicates, as concretely as anything could, the condition of commerce. Credit was hardly known; the taking of interest on loans was prohibited by the Church and the use of bills of exchange came about only very late (perhaps toward the end of the crusades). Thus it may be seen that, as a technical expression has it, there was no *money economy* in the Middle Ages, and the facilities for transacting business on any scale beyond the purely local were almost entirely lacking.

With the coming of the crusades about 1100, a new

freedom of movement appeared which exercised far reaching influence upon European life. Horizons were broadened; people traveled; new commodities were brought from the East to the West. Beginnings were later made in the use of credit for the help of crusaders and pilgrims: the Templars, with their many stations throughout Europe, developed a sort of international banking service. Trade felt the impulse of these activities and began to expand. It is noteworthy that fairs became of capital importance in the twelfth century. For two centuries these picturesque forms of medieval commerce, with their special protection for merchants and their social appeal, mark the gradual development of wider and wider trading activities.

Towns began to grow, also; the movement of trade and the markets of the fairs created demands for more commodities, and people in the towns began to see that they could find a sale for their surplus products. These industrial beginnings were small, and grew slowly; the gild which grew up for each branch of trade and each industry reveals, in the character of its rules and regulations, how comparatively limited such activities were. Every town, like every manor, became a little world within itself. The traders in their merchant gilds and the artisans in their craft gilds endeavored to control the amount, quality, price and marketing of all goods produced and distributed. The government of the towns, in fact, usually fell almost entirely into the hands of these gilds which exercised their power in a very paternalistic fashion. Protection for merchant and craftsman, reduction of "foreign" competition (every one not a citizen of the town was

a foreigner) and a *just*, or fair, price were among the principal aims of the gilds.

It is obvious that the difficulties and limitations to medieval trade of which we have been speaking were affected primarily by conditions of land communication. Movement by water, however, had been very little easier or more extensive. Rivers, during feudal times, were easily controlled by castles and the absence of any strong government with naval power left a fairly free field for pirates. Ship construction, moreover, had not developed vessels of a sufficient size to encounter heavy weather or undertake long voyages. There was some navigation, it is true, throughout the Middle Ages on the Danube, the Rhine and the Russian rivers: there was perhaps more along the shores of the Baltic, North Sea and Mediterranean. Inland seas like the Baltic and Mediterranean were more favorable for the small medieval ships because distances between ports were comparatively slight and the vessels, commonly propelled by oars, could hug the shore and creep from port to port.

Adventurous Vikings began to pilot their vessels out of the Baltic and North Seas as early as the eleventh century, and about the time at which the crusades affected movement in Europe generally, Baltic trade began to be very active. Trade in amber, furs and timber from northern parts accelerated the growth of such towns as Lübeck, Bremen, Danzig, and Hamburg. In the Mediterranean there had been, as is well known, continuous navigation for centuries—even during the “darkest” period of the Middle Ages—say, from 400 to 1000. Around this great inland sea the

ports differed widely from one another in peoples and commodities. The Levant, the eastern section, had contacts with regions still farther east, the Black Sea, Persia, and India, and hence served as a meeting ground for the galleys which came from such western Mediterranean ports as Marseilles, Amalfi, and Barcelona. Certain oriental commodities, especially spice, pepper, cloves, precious stones, and silks, could not be produced in Feudal Europe, and hence trade between the two areas of the Mediterranean never quite disappeared.

It was through Mediterranean trade, indeed, that influences developed which eventually had much to do with ending the limitations of medieval trade and preparing the way for the Commercial Revolution. The crusades caused much travel across the Mediterranean, much carrying of men and supplies; they greatly stimulated trade. The most immediate recipients of these influences were the cities of Italy. Not only did they profit by the building of ships and by engaging in the rapidly increasing transportation, but they also developed valuable trade in the cities of the Levant—Antioch, Constantinople and Alexandria. To participate in the advantages of this commercial activity, industries sprang up in the Italian cities. In Venice, Florence, Genoa and Pisa, especially, there were important developments of textile, leather, glass and other forms of manufacturing. How extensive and profitable these activities were is reflected clearly in the growing strength of these Italian cities and in their wealth and their prosperity. Money began to be more plentiful than it had been in medieval times; the cities began

to issue coins which were of good value and which were maintained at a high standard. The Venetian ducat, from about 1284 on, became famous throughout Europe.* It was widely used as a standard. Similarly the florin, coined at Florence, became one of the most widely employed coins. The British government still mints a two-shilling piece called a florin.

A *money economy* was obviously beginning, and it naturally produced bankers and banking. In northern Italy, particularly, there appeared families whose chief activity was banking; the name Lombard Street, in London, still perpetuates the memory of the period when the Lombards were the pioneer bankers. The famous Medici family of Florence were among these bankers. Many banking terms owe their origin to Italian usage.

Not long after the Italian cities began to flourish so vigorously with this rise in commerce, other cities developed extensive trading activities. In southern France, in northern France, in Flanders and in northern Germany groups of towns became important. During the 13th and 14th centuries their trade was steadily growing; in the north some of these cities founded the *Hanse* or society, known as the Hanseatic League. Bruges, Lübeck, Hamburg and Danzig were among the leading centers of the league; their trade was mainly in the North Sea and the Baltic, although they had contacts with the Mediterranean cities, particularly with Venice, whose ships, the Flanders galleys, made annual voyages to Bruges.

* This coin remained in use, as a money of account in foreign trade, in Austria and the Netherlands until 1914.

It was in the 15th century, however, that the developments came about which were to furnish the most powerful elements in the Commercial Revolution. The growth of trade which we have just observed was an important preliminary. Most far-reaching changes are preceded by long, slow change; few revolutions are really sudden. So in the case of the great changes in commerce the rise of the cities and their trade prepared the way. It was the political evolution of Europe, however, during the 15th century which altered the conditions under which commerce was to be "revolutionized." In Britain, France, Spain and the Low Countries feudalism was giving way before the growing power of kings and princes. Strong central governments were replacing weak feudal control; larger areas of territory were being brought under a single, unified political system. In England the strong Tudor dynasty established itself in 1485; in France, the wily Louis XI (1461-1483) restored the royal power after the ravages of the Hundred Years' War; in Spain the marriage of Ferdinand of Aragon and Isabella of Castile laid the foundation for a strong monarchy; the Netherlands came under the sway of the great Hapsburg family; among the various German peoples, dynastic states began to emerge. These political events signified that, generally speaking, law and order would henceforth be enforced over areas wider than those of feudalism; security of movement would be greater; trade would find a more powerful protector in the central government. Wider markets would be available; tolls might be somewhat reduced; roads and bridges might be safer and maintained in better repair. The

king's justice would supplant that of the feudal lord and be surer, on the whole, for the merchant; the *king's highway* would replace the private way of the feudal estate, and be safer and longer.

Added to these highly important changes came the remarkable explorations by sea which have named this period the Age of Discovery. Vasco da Gama reached the coast of India via the Cape of Good Hope in 1498, and was followed by Albuquerque, who carried the flag of Portugal to the Spice Islands in the heart of the East Indies; Columbus brought to Europe the knowledge of a New World, and Magellan's fleet circumnavigated the earth. It is hardly necessary to mention the host of other explorers who expanded European knowledge of the world—the Cabots, the De Sotos, the Verrazanos, the Cartiers and many more. Not only were new continents made known and new routes to the riches of the East revealed but vast changes in the nature of commerce were made possible and, indeed, necessary. Henceforth the center of commercial activity by sea was to be not the landlocked Mediterranean or the Baltic Sea but the broad Atlantic Ocean. From now on ships were to be built larger and more seaworthy and were to be rigged for sailing rather than for rowing. The type of trade which Hanseatic merchants had hitherto conducted was now to be extended and increased. Hereafter, long distance voyages, big scale trading and wider markets were to be sought. Thus we can see the Commercial Revolution in process.

Leadership in trade began to pass from the cities of the Mediterranean—Venice, Genoa, Florence, Pisa, to

those peoples whose harbors on the seacoast gave them easier access to the wide expanse of the Atlantic; to the Spaniards, Portuguese, French, Flemish, Dutch and English in their cities of Cadiz, Lisbon, La Rochelle, Nantes, Antwerp, Amsterdam, Bristol and London. Among these cities, Antwerp was for a long time the queen. Becoming the commercial capital of the far-flung empire of Charles V, she rapidly grew to be the economic center of Europe. On her numerous docks along the deep waters of the Scheldt were unloaded pepper from the Portuguese Indies, wool from England, gold and silver shipped from the New World via Spain, copper, alum and dozens of other articles of trade. Her bankers were agents for most of the trading interests of the Continent. To their strong-boxes came money from the mines of Hungary and Tyrol, taxes collected from the peasants of Spain, savings from the industrial activities of Brussels, Liège, Lyons and even Venice, profits from the trade of both the East and West Indies. To her, and to these other new commercial cities, came larger, ocean-going vessels with heavier cargoes and many commodities new to trade. Tea, sugar and tobacco replace in bulk and total value the more compact and rarer pepper, spice and cloves of earlier days. Of pepper and the other spices, more than ever was brought from the East. Grain, meat, rice, fish, oil, timber, furs, slaves and manufactured products begin to be more important as items of commerce. In quantity and economic significance they far exceed the cargoes of former times.

In a very important way these growing cities differed in their conduct of trade and industry from the Medi-

terranean cities and those of the Baltic and the North Sea. They were not essentially independent, self-governing cities, making wars and making treaties; they did not have the freedom of regulating trade almost entirely in the interest of their own gilds of merchants and craftsmen. They were the "good cities" of kings. They were governed more and more as parts of the states of these kings. Trade rules and customs tariffs were hereafter to be made for states and not merely for single cities. Many of these state regulations were, it is true, an outgrowth or expansion of those previously made by the medieval cities, or by the gilds in the cities. But they were now applied on a much larger scale and began to differ in various ways. State policy succeeded town policy. In the first place, the new policy had to be adjusted to the needs of the state as a whole, in which there were many interests besides those of merchant and craft gilds. There were concerns of the royal government, revenues for military and naval forces; there were agricultural interests—grain, wool, timber; there were mining and lumbering interests, and others which were hardly to be found in any one town of medieval times. It was not always easy to reconcile these diverse and often conflicting matters and make commercial laws, which would please every one, for the whole state. Hence, many new opinions appeared as to the needs of different sections of the state, or of the different activities within the state. Royal governments found themselves confronted with the problem of working out a state policy to supplant the older town policy.

General principles were needed which would be so

widely acceptable that they could be made to fit the needs of many forms of industry and commerce. Consequently, men began to think and reason about the nature of industry and trade and to determine those principles which should be embodied in laws for the purpose of adjusting the numerous interests involved, and also for protecting and stimulating trade and commerce. Thus there developed a branch of thought and study which is one of the forerunners of what we later call economics.

In the second place, these new states differed among themselves rather more widely than did the towns of the Middle Ages. True, the towns, especially those in Italy, had often been bitter rivals and fought each other to the death, but their competition was chiefly, though not always, commercial. The states, however, had many more causes of jealousy and hostility. Ambitions of kings, religious differences, traditional enmities and above all the competition for the land, gold and trade of the New World led the states into long and exhausting conflicts. International war, with its manifold causes, had come, along with these new states, into existence. New continents were the prizes for the winners.

As lands were acquired overseas, in North America, South America, Africa and Asia, they were organized, generally, into colonies. These colonies were accompanied by important changes in trade and in ideas about commerce. How should trade be carried on with, and in, these new colonies? What should be the relation of traders in the colonies to those of the mother-country? How far should the royal or state govern-

ment control and regulate this trade? These problems, and the attempts to solve them, affected very deeply, it may clearly be seen, both the manner in which trade was carried on and the ideas or theories about trade. The effect was, in fact, revolutionary.

Trading companies were perhaps the most tangible evidence of this revolution. The new, large-scale, ocean-going trade of which we have spoken, plus the wider opportunities available in the new lands, produced these companies. In the Middle Ages, trade had been carried on by individuals; there was almost none of what we should now call "wholesale" dealing. Stocks of goods were not large; stores, in our modern sense, hardly existed. Individual dealers, whom we designate as peddlers, or at the most as retailers, were the merchants of medieval times. Money, as we have seen, was scarce, and there was not a sufficient amount available for being used as capital, for investment in supplies of goods or for use in any considerable business enterprise. The associations of merchants and craftsmen in gilds were not precisely what we should designate as "business" associations. Their aim was for protecting the individual in his trading journeys, in his marketing and in his manufacturing. They guarded and controlled the interests, collectively, of individuals in similar activities. In the later Middle Ages, partnerships began to be formed, but they were on a small scale and mostly for very limited undertakings.

Now, however, enormous opportunities had appeared; these opportunities needed larger quantities of goods, more expensive equipment for carrying them and, in general, far more money or capital than the

average individual possessed. Big ships, wholesale dealings, long voyages and adventurous exploitation of strange lands demanded big sums of money. Hence, merchants began to combine their resources; thus companies originated. At first, probably, such combinations were more or less experimental. People were cautious about trusting other people with their money; no established system of credit was available, nor was there the "good will" or confidence which is so important in the present conduct of business. Men rather gingerly confided their money to an enterprise undertaken in common with others. But opportunities loomed large; huge profits were to be made, and consequently men took the risks of combination. At first, the combination was for only one voyage, or one undertaking. A venture, the undertaking was called, and those who invested money were known as adventurers.

Sometimes a group of individuals engaged in trade of a similar nature or to a certain place, needing more protection and common support than could be provided by the resources of a single trader, organized what was known as a "Regulated" company. Herein, each individual carried on his own business, with his own resources, but agreed to abide by definite *regulations* laid down by the whole group for the protection and welfare of the trade which was their common interest. Each member might contribute an assessment for the maintenance of a common protecting force, or for the support of facilities which were used in common, such as vessels, docks or warehouses. Members of regulated companies would also work in common to prevent the competition of those traders who did not

belong to the company, who were called *interlopers*. It was the aim of most regulated companies to secure and maintain a monopoly of the trade in which they were interested.

Neither the single *venture* nor the regulated company, it may easily be seen, really provided for any very far-reaching change in the method of trading, nor did they provide effectively for those needs which the larger opportunities demanded. There was neither permanence in the venture, nor any genuine combination of capital and resources in the regulated company. It remained for the formation of the *Joint-Stock Company* to produce a most significant innovation. This company was so called because it was a genuine joint or sharing undertaking; a company was formed into which each of the members put some money and received in return a proportionate *share* of the stock of the company; each member shared the risks, the losses and the gains. The company was ordinarily organized to last indefinitely and to undertake, sometimes, a variety of kinds of trade in one or many localities. Such an association might obviously be very powerful, depending on the amount of money contributed by the joint owners of the stock; at any rate the resources represented by a joint-stock company could be used for business on a much greater scale than was possible in medieval times. It is from the organization of such companies, indeed, that the development began which led more or less directly to the great business associations of our own day.

Both regulated and joint-stock companies contributed to the bringing about of another innovation—the

chartering, by government, of commercial undertakings. Charters, or grants of privileges or rights, had developed during the Middle Ages, especially as towns had endeavored to secure immunity from feudal dues or exactions demanded by feudal lords. Kings, as they tried to develop the royal power at the expense of their strong feudal vassals, were usually glad of the opportunity to grant a charter to a town. This charter frequently gave, in return for money payments, the right to a town to run its own affairs, choose its own officials, collect its own revenues and, in general, many desirable privileges. Quite naturally towns preferred to secure royal charters, if they could, to escape the petty, annoying and irregular exactions of feudal lords. Charters were valuable, moreover, and important because they made fixed and definite arrangements; they stated in black and white the obligations which the town owed the king and also the exact rights and privileges which the king had granted to the town. The charter, therefore, was an important element in the growth of the royal power, in the growth of towns, and as a contribution to the growth of commercial undertakings. By this means one of the greatest difficulties of medieval economic life—the irregularity, uncertainty and irresponsibility in relationships—was reduced or eliminated. Charters usually fixed responsibility definitely and made rights and obligations certain and regular. They possessed, in fact, the merit of establishing for trade and commerce what we express in the terms *law* and *order*. It is not difficult to discern in these charters the origin of the idea of a constitution—at least the idea of defining in writing the law,

rights and obligations which should govern a community in its political, economic and other relationships.

When a company was organized, therefore, it was natural that its members should desire the protection of their king or government; they desired, if possible, that the government should grant them the privilege of a monopoly—the exclusive right to trade in certain commodities, or in a certain locality; they sometimes wanted the financial support of the government; they desired, and secured, the right to control the people who lived in the places where special trading monopoly had been granted. Thus as chartered companies came into existence, they represented not only significant economic innovation but also powerful organization potentially capable of doing big things. This was particularly true when companies were formed to trade with colonies. At first, charters might provide simply for trade between the company and the colony; but when the company conceived the idea of planting a colony for the purpose of having a new place with which to trade, an entirely new and important development was at hand. A charter for a company with such a purpose would include extensive grants of power for the purpose of governing the colony. In this way, the provisions for the governing of the company itself were often applied to the manner of governing its colony. Thus colonial government derived a great deal from the charter. We see in the colonial government of this country, in particular, the source of much that is in our present State constitutions, and, for that matter, in our town or municipal governments. The latter, in

fact, are created by *charters* granted by States, just as the States themselves were, in their colonial origins, sometimes the product of commercial charters granted by a royal government to a trading company. The London Company and the Plymouth Company, chartered in the early part of the 17th century by the English king, are illustrations of this development. Somewhat similar charters were granted by the French king to French companies and by the Dutch government to Dutch companies. Many famous companies were chartered in England or the Netherlands during the 17th century which, in trade and colonial development, were important for over a hundred years; such were the Dutch East India Company, the British East India Company, the Hudson Bay Company. The British East India Company was really the founder of the vast empire of Britain in India and also played an important rôle in developing the trade and political influence of Britain in China and throughout the Far East. The Dutch Company also laid the foundation of that great colonial empire which the Netherlands still possesses in the East Indies, with its large population and its great economic wealth.

Beyond the responsibilities of framing and granting charters for trading companies, and of protecting trade, the governments soon found other demands of commerce pressing upon them. Increased trade, as well as new economic needs of the governments themselves, made necessary more and better money. Coinage on a larger scale and more adequately protected became imperative. The time had come for a *money* economy. Governments could no longer pay their officials in

commodities, or receive taxes in grain, live-stock or dairy products. Traders were finding that barter, or the exchange of goods, must be supplemented by a more convenient medium of exchange. Local coinage of town or feudal lord had to be replaced by a royal or state currency which should be sound, which should maintain its face value and which could be readily accepted over the whole state. The process of introducing such an important change was by no means as simple as it may seem. With all the power at the disposal of kings, it was no easy matter to create confidence in coinage, or to call in the old, debased coins and replace them by new, honest money. An attempt was made, in 1560, during the reign of Queen Elizabeth to begin a recoinage in England, but it was not until 1696 that the job was finished. The completion of the task was presided over by a group of famous men, among whom were John Locke and Sir Isaac Newton. Comparatively late as the date of this achievement was, most other countries were even slower in completing this difficult task; a stable and uniform coinage was not established in France, for example, until the time of Napoleon.

As the amount of money in circulation increased, as business transactions multiplied, a veritable financial revolution was brought about. The coming into existence of the money economy, of which we have spoken, produced larger accumulations of money. These accumulations are conveniently called *capital*. The rise of capital soon began to contribute to the extension of trading and industrial activities on all sides. Money became available for investments in

new ventures and for the development of existing trade on a larger scale. Profits bred profits and big fortunes began to appear. The great wealth of Jacques Cœur in France (1400-1450) and of the families of Fugger and Welser (16th century) in Germany are interesting examples of the accumulation of capital from various kinds of industry and trade. These men invested their money in constantly growing activities and in new ventures. Jacques Cœur, the son of a rich merchant of Bourges, began an extraordinary career as his father's agent in the Levant. At Damascus and other Syrian markets he purchased oriental goods for the French trade. His activities did much to establish a flourishing commercial business for France in the Eastern Mediterranean. He accumulated a colossal fortune, opening business offices in almost every European city of importance and operating as a banker, wholesale merchant and retailer.

Among the many rising German capitalists such as the Welsers, Haugs, Hochstetters and Imhofs, the Fuggers were clearly the most spectacular. "Thanks to judicious loans to the Hapsburgs, they had acquired enormous concessions of mineral property, silver and quicksilver mines in Spain and Germany, and controlled banking and commercial businesses in Italy, and above all in Antwerp. They advanced the money which made Albrecht of Brandenburg archbishop of Mainz; repaid themselves by sending their agent to accompany Tetzel on his campaign to raise money by indulgences and taking half of the proceeds; provided funds with which Charles V bought the imperial crown, after an election conducted with the publicity of an

auction and the morals of a gambling hell; browbeat him when the debt was not paid, in the tone of a pawn-broker rating a necessitous client, and found the money with which Charles raised the troops to fight the Protestants in 1552. The head of the firm built a church and endowed an almshouse for the aged poor in his native town of Augsburg. He died in the odor of sanctity, a good Catholic and a Count of the Empire—having seen his firm pay a fifty-four per cent dividend for the preceding sixteen years."

Large amounts of money to be handled, a growing system of credit and the increasing financial obligations of governments which constantly became more complex, demanded new facilities for transacting business. Public banks, larger and with broader functions than those of the earlier banks of which we have spoken, began to come into existence. We have noticed above the appearance of the Italian families devoted to banking. Important city banks, such as those in Venice, Genoa and Amsterdam, had also been established; but these were private undertakings, with limited spheres of action. Now, almost at the same time that England finished the institution of a real currency, the Bank of England was founded (1694). An earlier State bank had been founded, in 1656, in Sweden, which is still in existence. But the Bank of England really marks the beginning of finance on a scale, national in extent, which was big enough to cope with the vast expansion of trade and commerce which was taking place.

During the period which saw the changes we have been noting, particularly from about 1400 to 1700,

another conspicuous phenomenon was occurring, one which touched even more intimately the life and interest of almost every one. The cost of living was going up steeply and steadily. People who did not realize, perhaps, that they were living in the midst of extensive commercial changes knew quickly enough that they had to pay increasing prices for nearly everything which they bought. For this unwelcome, but nevertheless important, development, the Commercial Revolution was partly responsible. As a result of the explorations and discoveries in the New World, large amounts of gold and silver began to find their way to Europe, especially through Spain. At the same time, increased demands for money for trade, as well as for other things, led to an increased production of existing European precious metals; better means of mining and refining were worked out. Much of this new supply of gold and silver was minted by the Spaniards, or their subjects in the Netherlands; it was they who first made the dollar famous, along with doubloons and pieces of eight.

Higher prices resulted from this increased amount of money. The explanation of this lies principally in the consideration that, generally speaking, the more money there is in circulation the more money is asked for commodities. This may not be an adequate or complete explanation, but it is one which many people hold. We see it illustrated after a fashion in the practice of some professional men to-day who fix their charges for service according to what they think their clients can pay—or, as we say, at what the traffic will bear. The richer a client, the more he is charged. Similarly, the

richer the community in supplies of precious metals, the more the community is charged for commodities. Such a simple explanation, as we have remarked, may not account for every phase of the great rise in prices during the 16th and 17th centuries, but it is one of the theories still accepted. People of the time did not understand the causes of the phenomenon, but naturally were much concerned. They endeavored to find reasons, and in their thinking about the subject we find another contribution to the body of knowledge and speculation which has subsequently been classified as "economics."

Questions of higher prices were obviously associated with the other phenomena which we have been observing: trade expansion, trade with colonies, the manufacture of the goods used in trade, coinage, banking and so on. It became increasingly clear that all these factors might be connected. People began to think that possibly underlying them were general laws or principles. If these principles could be found out, governments could make laws in harmony with them. The result would be beneficial for every one—for government revenue, for the merchants, and for the population as a whole. Knowledge of these principles would enable merchants to conduct their business more intelligently and more profitably.

Such ideas on these matters as had existed in the Middle Ages were slight in amount and deeply influenced by the religion and philosophy of those times. No great need existed for much "economic" thought when there was comparatively little trade or large scale industry. Spiritual interests predominated in medieval

life. Man was supposed to devote his earthly existence to preparing for an eternal life of the spirit. The worldly interests of getting a living and accumulating capital were, at best, necessary evils. The all-powerful Church did not encourage, overmuch, devotion to material things. The taking of interest, for example, was prohibited. This limitation alone was sufficient to hamper extensive financial activity. The belief that a fair or *just* price in commercial transactions was all that a merchant should expect about sums up medieval economic doctrine.

The search for economic principles, stimulated by the Commercial Revolution, developed and broadened medieval conceptions. Ecclesiastical prohibitions were gradually swept away by the march of events. In both theory and practice the world became much more materialistic. The possibility of making ever more profit and of accumulating capital overcame religious scruples and spiritual interests. Then too occurred the great Protestant revolt against the Roman Church. This split in Christian unity added to the strength of the factors which were breaking down the spiritual power of the Church. The reformers, for a time, endeavored to condemn the worldliness of trade, money-making and other prominent aspects of the new commercial activity. Luther denounced the Fuggers and other capitalists. John Calvin, however, and his followers frankly adapted their religious point of view to the changed economic conditions.

Calvinism, it has been said, made money-making respectable. In both practice and theory, the Calvinists were leaders in the commercial activities of the

17th and 18th centuries. To Calvin a sense of duty and responsibility was of tremendous importance. Thrift, diligence and discipline were forms of duty. Calvinists saw no reason to deny that these qualities should be as valuable and justifiable in commerce and industry as in agriculture. They saw no reason to condemn the taking of interest or the accumulation of capital. Getting rich might be to the glory of God quite as much as staying poor—particularly if poverty were the result of laziness or shiftlessness.

Such ideas, it may be seen, helped to clear the way for the search for economic principles. Calvinism provided, in a sense, a sort of moral justification for thinking about matters which had formerly been ignored as worldly. Prominent among the problems which led to economic speculation was the rise in prices. This rise, it was recognized, might in some way be associated with the recently acquired wealth of Spain. Why was it, for example, that Spain, which had so recently been united into a state (between 1469 and 1500), had become so rich and powerful? Many events, such as the work of Ferdinand and Isabella and the series of Hapsburg marriages, might account for some of this Spanish growth. But was it not due, more especially, to the vast colonial empire which Spain had secured, with the immense stocks of gold and silver in Mexico and Peru? This seemed plausible. Could not one of the principles, in fact, which might govern the progress of trade and the level of prices be identified with the consideration that the more gold and silver there was in a state, the richer and more powerful the state would be, and hence, also, the more profitable would be the

trade and industry within the state? In consequence, the people of this state would be individually better off and happier. If this were so, was it not obviously to the interest of the state for the government to frame its policy and make its laws with the object of acquiring for the state as much gold and silver as possible? This line of thought appeared to many people of the 16th and 17th centuries to be very reasonable, and they busied themselves with trying to work out ideas or ways and means by which this desirable end could be attained. The more gold and silver there was in a state, the more trade and industry there would be, the more powerful the state would become and the greater the happiness of its individual inhabitants.

This principle or theory has become known as the *bullionist* theory, because it places the possession of bullion or precious metals at the basis of economic prosperity in a state. The bullionists—those who helped to develop this theory—devoted special efforts to seeking out the best ways in which a state could secure possession of as much as possible of the coveted bullion. If a state possessed gold and silver mines, or held colonies which contained such mines, the problem was not so difficult, but if unfortunately, as was the case with England, France and the Dutch Republic, there were no sources of precious metals available, what then? Must these states resign themselves to inferiority, comparative weakness and poverty while the Spaniards waxed rich and powerful? Might there not, on the other hand, be some way in which countries without gold or silver mines could attract or entice

the precious metals out of Spain and beyond the frontiers of fortunate countries?

There did indeed seem to be a way. Money, the bullionists said, was primarily used for buying things; now, inasmuch as no country contained or produced within its own borders everything that it needed or wanted to buy, many things must be bought from abroad. In this need, therefore, lay the possibility of attracting *treasure*, as the bullionists frequently called the precious metals, into a country without gold or silver mines. Manufactured goods were particularly serviceable for this purpose because they were more suitable for selling, more desired, generally, by countries which did not produce the same articles. The process of manufacture was also advantageous because it gave so many people work. Hence, to attract treasure, a country should manufacture as many things to sell abroad as possible. Other countries will be tempted or forced to buy those things which they do not manufacture themselves and will have to pay for their purchases in money. The more money thus paid for manufactures, the more bullion a country attracts.

A rather obvious flaw, it will perhaps be noted, occurs in this simple scheme of the bullionists. Supposing that your state, which is manufacturing goods to sell to other countries and thus attract treasure, lacks certain things itself—raw materials, perchance, or various commodities which you cannot manufacture, do you not have to pay for them in money, and thus send bullion out of the country? Certainly. The bullionists, however, saw this dilemma, and ingeniously developed a means for reducing this

sending out of treasure to the lowest possible amount. They advocated the placing of customs duties, or tariffs, on all goods imported; if these duties were made high enough, they would virtually prohibit importations, because by the time the duty had been paid, and the goods reached the buyer, they would be so expensive that they could hardly be purchased; at least, they would cost so much more than similar goods produced within the country that it would hardly pay to import commodities. Thus the drain of specie, or bullion, out of the country would be discouraged. Incidentally, of course, such high tariffs would *protect* home manufactures against competition and serve, so it was believed, to stimulate and encourage home industry. Hence arose the term *protectionism* to describe this aspect of the general policy which we have been discussing. It may be seen, therefore, that there was a fairly close connection between bullionism and protectionism. A policy of *high protection*, not only was supposed to help and encourage home manufactures, but also to keep money in the country, furnish surplus manufactures which would be sold abroad, and thus attract money into the country.

It is only fair to the bullionists to say that they were not so simple, in every instance, as to believe that precious metal or bullion was the only form of wealth, or that it was, in itself, wealth. Some of them were keen enough to realize that "treasure" was only a sign or indication of wealth, most desirable to possess because it could be exchanged for commodities or for resources which meant power and well-being. They knew that money was a useful medium of exchange.

It was easily handled especially in commerce and industry. But they undoubtedly overemphasized the importance of possessing bullion, confusing thereby the presence of money as both cause and effect in connection with the increase of trade and industry.

Among the results of these bullionist and protectionist ideas was the spread, during the 17th century particularly, of the general conviction that trade, commerce or "merchandising" was the most profitable and important form of economic activity. This was believed because, as we have seen, money was thereby attracted into a state—expressly a state which had no gold and silver mines. Besides, the more trade there was, the more money would circulate, the more money there would seem to be and, in general, the better off the state and its people would be. Hence, commercial or mercantile interests were of the highest importance to every one. Many varied and elaborate suggestions were consequently produced, during the 17th century, to show how commercial interests could be fostered. It is the mass of these suggestions which, collectively, is described by the term *mercantilism*.

At the basis of mercantilism lie those ideas which have just been presented. To recapitulate: bullion is perhaps the most important form of wealth, possession of which makes a state and its people strong and happy; states which have no gold and silver mines may attract bullion by trading; their best policy in trading is to protect industry at home by high tariffs on imports and by encouraging every form of export. This summary may naturally raise the question as to

what would happen if every state practiced this sort of policy. The mercantilists realized that this might create something of a dilemma. At least they appreciated the fact that, from such a situation, two states equally eager to encourage exports and prohibit imports might come to fighting with each other. This was a perfectly logical conclusion, and might lead to the justification of war for the purpose of conquering commercial or trading opportunities. Such considerations undoubtedly did influence some governments during the 17th and 18th centuries, and mercantilism thereby added its contribution to the manifold causes which produce wars.

One significant error, however, was present in the mercantilist idea that two states, each practicing a mercantilist policy, might come to blows over trade. They assumed that the amount of possible trade in the world was practically static; i.e., they thought that there was just so much buying and selling to be done, and that there was almost no probability that any increase could be brought about. A given number of people, a certain amount of money, definite wants—and therefore a static amount of trade. Standards of living were fixed, they assumed; people would always buy about the same amount and kind of clothes, eat about the same amount and kind of food. Consequently, the trade which one state acquired, another state lost—or at least didn't gain. What one state gained, another lost. It was, as yet, hardly appreciated that there are usually *two* sides to a bargain, and that it is possible for both sides in trade to gain.

Neither did they realize that trade is not really static at all, but that it is apparently susceptible of extraordinary expansion.

Mercantilism did not understand fully that new trade could be created by creating new desires, new tastes, new standards of living. Even if two states were rivals for a given trade, and one lost there might still be opportunities in developing new trade elsewhere. Our present-day system of advertising, with its study of psychology and the tricks of persuading people to buy things they have never needed or wanted before, had not yet come into existence. The idea that standards of living could be remarkably raised was still undreamed of. The 17th century did not understand, in fact, that even at that very time standards of living were rising. When people began to demand white bread instead of black, tea and coffee to drink instead of cheap liquors, leather shoes instead of wooden and glass for windows instead of oiled paper they were regarded as perversely trying to rise above their stations in life. Nor was it hardly to be supposed, at this time, that a people could move so rapidly as to think that within one generation telephones, automobiles, steam-heat, refrigerators and radios would become necessities, rather than luxuries, of life. What was considered, therefore, as existing trade—more or less fixed in amount—was a very precious acquisition, to be fought for, if necessary.

How could a state tell whether it was losing or gaining trade? By observing, said some of the mercantilists, the *balance of trade*. This balance was the relation of exports to imports. When a state exported

goods, the total value of which was more than the total value of those imported, the balance was *favorable*. If a state maintained a favorable balance of trade, the difference between the cost or value of the exports and that of the imports would be paid by the buyers, i.e., the traders of another state, in money. Thus bullion would be attracted into the state. Suppose, for example, that Britain in a given year exported goods worth \$8,000,000, and in the same year imported goods to the value of \$5,000,000; this would mean a favorable balance of \$3,000,000, which represents the amount paid by foreign buyers to British manufacturers, over and above what British buyers had paid the traders of another state. Thus \$3,000,000 worth of bullion had been added to the stock of precious metals in Britain. Conversely, an unfavorable balance of trade, in which more was imported than was exported, would cause a loss of bullion to the state.

Not every mercantilist thought exactly along the lines here indicated. Some detected the flaws in the argument, although they may not have stated these flaws in modern terms. By some it was understood that, in the long run, only goods pay for goods, and that the surplus or balance in trade has to be paid in something which the bullion or money only represents. But in general most people concerned with trade, during the 17th and 18th centuries believed in the validity of mercantilist theories. Indeed, many people still think that a favorable balance means an importation of bullion which makes for the power and prosperity of a state. Balance of trade headlines, for example, appeared in many of our newspapers during the years

immediately after the war, indicating how tenaciously some plausible fallacies are retained.

Among the suggestions which mercantilists offered as ways for fostering a favorable balance of trade were, first and foremost, the encouragement of all the manufactures possible, particularly those which did not have to use raw materials imported from outside the state. Such encouragement was offered by laws prohibiting the use of any but "home-manufactured" articles; imposing high or prohibitive customs duties on foreign manufactures—thus eliminating competition; by efforts to establish new manufacturing undertakings and giving them, not only the sole, or monopoly, rights to make certain commodities, but also by granting them government subsidies or bonuses. Aid was also granted in another very important way through the opportunities furnished in the colonies of a state. Mercantilist opinion regarded colonies as existing primarily to be monopolized and exploited by the traders and manufacturers of the mother state; they were to supply raw material for the industries of the mother state; all the profits of transportation and manufacture were to be derived by the people of the mother state. This idea may be seen in the practice of colonial regulation by almost every European state which possessed colonies, and particularly in the British Navigation Acts. The tenacity of this particular aspect of mercantilism produced its results in helping to develop causes for the American Revolution.

In addition to these aids to industry and commerce, the mercantilists suggested many others. A numerous population, as the most important source of a large

body of industrial laborers, was highly prized by mercantilists. They indicated many ways in which population could be increased. They advocated the regulation and encouragement of marriage, the attraction of foreign immigrants by favorable naturalization laws, religious toleration, freedom in the employment of servants, generous poor relief, schools and stipends for physicians and surgeons. "National improvements" were a favorite hobby of the mercantilists. The building of bridges, the construction of canals, harbors and good roads were important assets for trade and commerce. They desired technical training to be developed for artisans. Interest on loans, they said, should be lowered and fixed at a definite sum; courts for the administration of commercial law should be improved, and the navy should be sufficiently increased so that adequate convoys for merchant shipping could be provided. Such were "national improvements."

Here, then, in these various ideas or theories, sometimes emphasized in one direction, and sometimes in another, is embodied the celebrated mercantilist system, which is also called the bullionist or protectionist system. No definite *system*, of course, ever really existed, except as different aspects of all these ideas, taken collectively, were emphasized or tried out. No clear-cut distinction can be traced between these many isms; they appear in varied and constantly changing combinations. Taken altogether, however, they are significant of a most important phase in the development of the modern state; they show that the state has arrived at a certain stage of power; they show that the state has acquired a consciousness of duty toward

its economic interests and toward making itself strong. The state has fully absorbed the responsibilities assumed by the governments of the medieval towns and cities in their elaborate regulations for the welfare of the trade and craft gilds. In fact, it has been pointed out—"mercantilism was the policy of the town writ large in the affairs of the state," and it has also been said that mercantilism was a "political policy with an economic basis."

From about 1600 to 1700 was the heyday of mercantilism. It was during this century that its doctrines were most popular and most seriously regarded as valid. In one form or another they were held in all European countries. England was perhaps the land where there were more students of mercantilist problems and where there were more writers on the subject; a great many pamphlets have survived; they are interesting examples of the variety and character of mercantile opinions. The classic statement of mercantilism in a variety of its phases is doubtless Thomas Mun's "England's Treasure by Foreign Trade." This was written about 1630, though not published until 1664, and is perhaps the earliest clear presentation of the balance of trade theory. Samuel Fortrey, in 1663, published "England's Interest and Improvement" advocating an "increase of store and trade" by stimulating manufacturing and by preventing the export of bullion. Charles Davenant (1656-1714) wrote an "Essay on the Probable Means of Making the People Gainers in the Balance of Trade," and was a strong supporter of the restrictions on colonial trade. In 1668 Edward Chamberlayne in "England's Wants or Sev-

eral Proposals Probably Beneficial for England" advocated a "great public stock" for public relief, the building of roads and canals, the setting up of youths after apprenticeship, for marrying poor maids and in general for the application of mercantilist ideas. Similar improvements were presented by Carew Reynel (1674) in "The True English Interest, or an Account of the Chief National Improvements." These writers, and many others, are representative of mercantilist thinking.

Spain developed a rigorous application of mercantilist doctrines in her trade and in her control of colonies. No monopoly was more exclusive than that with which the Spaniards shut out all possible trade between their colonies and foreign countries. There were mercantilists in the Netherlands, Italy and Germany. In Germany mercantilists were called Kammeralists—a word probably derived from *kammer*, meaning royal treasury, hence the economy of the prince or the state. But the most famous and perhaps the most thorough-going attempt at the application of mercantilism was made in France by the great minister Colbert. The work and very name of Colbert have frequently been used as synonymous with mercantilism, so that it has sometimes been called Colbertism. How this experiment was tried will be discussed in the following chapter.

To sum up the foregoing chapter: we have noted the occasion and reasons for the so-called Commercial Revolution. This revolution consisted primarily in an increase of trade and of trade areas, particularly through the creation by the state of new conditions and

new opportunities, through the discovery of new worlds and the acquisition of colonies. From rivers and inland seas commerce passed to oceans. Town policies and control of trade were absorbed by state policies and control. The increase in the supply of precious metals helped to cause a rise in prices and to develop a money economy, which is marked by improved systems of coinage, interest and banking. Chartered joint-stock companies came into existence. And, finally, new economic doctrines or theories were worked out dealing with most of these changes, attempting to explain or interpret them and offering suggestions, through bullionism, protectionism or mercantilism, for the most effective utilization of the new conditions and possibilities.

II

COLBERT AND MERCANTILISM

Mercantilism, as we have seen, was a group of ideas concerned with building up, through industry and commerce, the wealth and power of the state. These ideas came into currency at about the time that Europe was growing out of feudalism into a number of fairly large and powerful states. Mercantile ideas were logically suited, therefore, to the interests of the royal families or dynasties which were doing their best to increase the size and strength of these states. Mercantilism might be described, indeed, as the economic policy of the growing dynastic states. So extensively did some of the royal dynasties apply this policy that it has sometimes been called *statism*. Thus mercantilism may be regarded as the economic aspect of a general effort to make the state strong, unified and powerful.

Statism, to use the broader term, became particularly effective because it was in vogue at the time when these dynasties of which we are speaking tried to make themselves as nearly absolute as possible. No sooner had kings succeeded in developing their states out of feudalism than they began to concentrate, into their own hands, the control over their kingdoms. The result was the absolute monarchy—also known as monarchy by divine right. In France, under the power-

ful and ruthless leadership of Richelieu (1624-1642) and Mazarin (1643-1661), were laid the foundations of that absolute monarchy enjoyed by Louis XIV from 1661 to 1715. In England, the Stuarts endeavored to assert absolute power during the same period. (James I, 1603-1625; Charles I, 1625-1649; Charles II, 1660-1685). In Spain, the Netherlands and in various other states similar policies were applied. Statism and the absolute monarchy grew up together.

Between mercantilist practices and the interest of the absolute monarchy a very strong bond was formed by the rise to importance of the bourgeoisie. The bourgeoisie was the middle class of people, between the nobility and clergy on the one hand and the peasants on the other, which earned its living by manufacturing, shop-keeping, banking, trade and, in general, by the various activities which had been stimulated by the Commercial Revolution. This middle class, indeed, was one of the most significant products or accompaniments of this revolution. Under medieval social conditions there had been little room for a middle class. The feudal lords, the clergy and the serfs did what fighting, praying and farming were necessary for the simple life of the time. Much of the comparatively little commerce had been hitherto in the hands of Jews whose low rating in the social scale indicates the contemporary opinion of such activities. The bourgeoisie and their trade, therefore, for a long time shared this low esteem. With the growth of towns the bourgeoisie became more important; the very name (dweller in a *burg* or town, hence burgher or bourgeois) reveals their origin.

As the manifold interests of the Commercial Revolution expanded, there was more and more opportunity for earning a living in ways other than by knightly pursuits, in the church or by farming. The increase of town populations led men to take up industry. As more people began to do this, the gilds began to resist; they invoked their special privileges and restrictions to prevent the competition of increasing manufacturing enterprises. But the tide against the gilds was too strong; they began to decline. Suitable as these associations of merchants and craftsmen had been for the limited trade of medieval times, they were inadequate for the much greater activities produced by the new commercial developments. They lacked the flexibility for expansion, the freedom essential for trying new ventures. Their spirit had been, generally, restrictive and defensive rather than enterprising and aggressive. Confronted by competition and vigorous growth, they fell back upon a policy of obstruction, jealously trying to maintain every item of their long-standing exclusive privileges and sometimes absurd rights. Every step of their decline from the 16th to the 18th centuries was bitterly contested. In the long run they succumbed, although there are still interesting survivals. In London several of the merchant and craft organizations remain, and the very term for what we should call the London city hall is Guild Hall.

With industry and trade gradually opening to them, the middle class increased rapidly. Its members were particularly favored by royal governments because the bourgeoisie could be employed for functions of government in which knights, clergymen or serfs were neither

competent nor trustworthy. The more favors the bourgeoisie received from kings the more loyal they became. It is easy to see how this loyalty was appreciated by monarchs who were trying to make their power as nearly absolute as possible. Nobles and clergy possessed long standing rights and privileges which were often inconsistent with strong royal authority, and these classes sometimes resisted the kings vigorously. The bourgeoisie had no long standing rights, and were usually entirely dependent upon the good will of the king for advancement and for protection in their trade and industry. The fact that kings were favorable to mercantilist policies for building up the state, and that mercantilism was the particular interest of bourgeois traders created another bond between monarchy and this new class.

It is not surprising, therefore, that in France, where the absolute monarchy reached its most perfect or classic expression, the policy of mercantilism should have found its most celebrated application. In the combination of Louis XIV, *le grand monarque*, and his great minister, Colbert, we find the conjunction of the two most frequently mentioned examples of absolute monarchy and mercantilism. Jean Baptiste Colbert (1619-1683) was, appropriately enough, a bourgeois. He was the son of a dry-goods merchant of Rheims and, as we have mentioned in the case of the bourgeoisie generally, he was found useful by the royal government. Being "very faithful," and having no landed estates, class interests or other pride of tradition to prejudice him against the increasing power of the crown, or to estrange him from hard work, he

could devote himself to finance and the economic service of the state. Appointed by Louis XIV in 1661 to superintend the royal finances, Colbert labored for over twenty years to make Louis XIV the greatest of kings by creating in France the wealthiest and most powerful state in the world.

It must not be supposed that because the statism of Colbert was so conspicuous in its thoroughness and in its application France was the only country in which the policy was followed. There were, as we have mentioned, other realms in which absolute monarchs aspired, by mercantilist means, to develop the state. The policy of the Great Elector (Frederick William, the Hohenzollern ruler of Brandenburg, 1640-1688) was devoted to the building up of the state, especially by economic improvements. In Spain a strictly controlled, monopolistic régime of commerce and industry was rigidly maintained. In England the Stuart policy was mercantilist; Cromwell, with the Navigation Acts of 1651 and a vigorous colonial ambition, continued this policy. To the best of their ability, the Netherlands, with their waning strength, followed similar aims. But nowhere was there quite the same phenomenon of a strong, devoted, mercantilist minister backed by the power of an absolute monarch as in France. Hence, the outstanding character of the great mercantilist experiment of Colbert.

Colbert climbed to power after the manner of the times. His bourgeois family being well-to-do, and having matrimonial connections with Le Tellier, Secretary of State for War, Colbert began with a clerkship in the War Office. Here he worked his way up through

faithful and untiring zeal. He was not above ingratiating himself by any means, contemptible or otherwise. Eventually he entered the service of Mazarin, where he was indefatigable in advancing the interests of both his master and himself. Methodical, painstaking and ambitious, he secured the confidence of the Cardinal, acquired riches, and ultimately secured the patronage of the king himself. In 1661 he became the most important man in the government of Louis XIV. Until his death in 1683 he had only one serious rival in the king's confidence—the Minister of War, Louvois. In the royal service his devotion, although not exactly self-forgetful, expanded to a loyal and almost fanatical zeal for the welfare of the king and of France. One title and dignity after another were added to Colbert's name until he finally became Marquis de Seignelay. In advancing the interests of the royal treasury and the riches of France, he was heartless—ignoring the suffering of the tax-payers and repelling all appeals for leniency. Yet for his family he was an eager and generous provider. Posts in the Church, in the diplomatic service and other government offices, as well as lands and money were bestowed with a lavish hand on his brothers, sons and more distant relatives. Nothing was too great for his ambition to seek and nothing was too small or detailed to escape his attention and effort.

Before surveying his work, we may well ask the question—how far was Colbert himself a typical mercantilist? How completely was he acquainted with the ideas which go to make up mercantilism? How consistently did he endeavor to apply mercantilist the-

ories? It has commonly been assumed that Colbert was very much of a mercantile theorist, and that he was so obsessed by the theories of mercantilism that he tried to force everything into conformity with these theories, that, in fact, he was almost more interested in the theories than he was in the results of their application. This conception of Colbert is quite unfair and pretty generally wrong. He was not, to begin with, a theorist at all. He was a very practical man indeed, and was never bothered by worries as to whether his policy fitted a theory or not, nor did he care, apparently, whether his theories were consistent or not. He aimed for results and the results he desired were the strength, self-sufficiency and greatness of the French state. Like most other statesmen and the merchants of his day he accepted current mercantilist ideas as the best means to secure the results he sought. Bullion was very important for a state, and industry and trade must be stimulated to attract and secure as much bullion as possible. With these ideas he was in general agreement, but any means which built up the state were employed or applied by Colbert. His statism was not confined to mercantilism or any of its component theories.

We sometimes find him ordering a certain procedure, and giving as a reason considerations which might be described as thoroughly mercantilist. Then again he directs a policy which is quite the opposite of mercantilist, stating very frankly that it is expedient, although not in keeping with conventional ideas. In the following excerpts from Colbert's "Letters, Instructions and Memoirs" an idea of his attitude may be

derived: "It is necessary to reduce all the activities of your [Majesty's] subjects, as soon as possible, to those which are useful for [our] great plans. These are agriculture, industry, land commerce and sea commerce. Reduce all [your] subjects to these four, and [you] can become master of the world."

"*Grand commerce* is the means of augmenting the power and grandeur of Your Majesty and of reducing those of your enemies and your jealous competitors. To the increase of money is due all the great things which Your Majesty has done, and may do in his whole life." On the other hand, we find statements which are the very antithesis of such mercantilism: "Our neighbors, who consider commerce as the principal element of strength in their states, know from experience that *liberty (freedom)* whether for commodities or for merchants, helps to make commerce flourish." "Commerce being a right or law of nations ought to be equal among equals . . . free and equal." "To put commerce on its feet, two things are necessary, security and freedom." "Freedom is the soul of commerce, without such it cannot exist. Commerce universally consists in freedom to every one to buy and sell. . . . Everything which tends to restrict the freedom and number of merchants can be of no value." On the mercantile side again, we find: "Nothing is so prejudicial to the state as that large sums of money should annually be exported." "I believe that we are clearly in accord on the principle that it is only the abundance of money in a state which affects its freedom and grandeur. . . . It is always preferable to buy in France rather than abroad . . . it is necessary to

reduce the taxes on exports and prevent, by raising of tariffs, the import of foreign manufactures." We may see, therefore, that Colbert was certainly a statist, ardently devoted to the increase of every kind of power within the state, but he was also an opportunist; he would use almost any policy which fitted the moment; he would, as it is colloquially expressed, try anything once. In practice, most of his effort worked along mercantilist lines because, as we have seen, these were in the 17th century commonly accepted as most expedient.

Personally, Colbert was not especially interesting or attractive. He had little sense of humor, was very serious and devoted himself so exclusively to work that he was not a general favorite. Work was his passion and his obsession. His economic instinct was sound in realizing that labor is one of the chief elements in wealth. Work produced the goods which could be sold for bullion. He wanted every one in France to work, and work productively; he tried every means of either inducing or forcing them to work. He thoroughly practiced his own preaching and set an example of a killing pace. It was said that he normally worked sixteen hours a day; he was called the work-ox of Louis XIV. He denounced monks and nuns and many of the clergy as unproductive because they did not do what he called useful work. He endeavored to reduce the number of holidays because there were so many of them that the productive output of labor was really much less than it should have been. Seventeen saints' days or feasts he abolished at one fell swoop. In spite of this, however, the French cal-

endar retained, at his death, thirty-eight holidays per year, in addition to Sundays. When one considers that practically three months of the year were thus more or less removed from the work-a-day life, one is somewhat inclined to understand why Colbert felt that France needed to go to work. Hard work was the foundation stone of his policy. It did not win him favor or make him popular, but it inspired the confidence of the king and its results more than justified his efforts.

In extent and variety Colbert's interests were innumerable. An estimate of them may be gathered from the fact that he officially supervised those spheres of governmental control which are exercised to-day by nine departments of the French cabinet; his functions were concerned with the activities now dealt with by the ministries of Finance, Navy, Public Works, Commerce, Agriculture, Posts, Public Instruction, Colonies, and, to some extent, Foreign Affairs. He was actively interested also in the patronage of arts and letters. Greatest of all his tasks, however, was his effort to keep the king faithful to his aim of making France rich, powerful, and self-sufficient. Louis XIV was thoroughly conscious of his own position as king and would not tolerate the thought of any of his ministers being a Prime Minister or exercising in any way an indispensable influence. The path of Colbert, therefore, was difficult. The king was vain, extravagant and ambitious for glory in diplomacy and war. These were expensive tastes, and in so far as Colbert's efforts produced money, Louis XIV was appreciative, but he

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was not far sighted or profound, and would not, in the long run, suit his policy to Colbert's plans.

Colbert's ideal for Louis XIV was a king who would furnish an example to France of hard work, and this—be it said to his credit—Louis XIV did; but he must also be thrifty, which Louis was not; he must be a king who loved, especially, his industrial and commercial subjects, and this Louis did not; he much preferred his brave soldiers and gay courtiers. He must be a king who would visit and patronize his great cities and their manufacturing establishments, encouraging and stimulating their activities, but these things Louis did not do; he preferred to visit camps and sieges, and to live in isolated magnificence at Versailles. For France, Colbert's ideal was that of a state which was entirely self-sufficient, dependent on no imports from abroad, and therefore free from the need of exporting bullion; a state within which there were no restrictions or tolls on the movement of trade; a state with uniform currency and weights and measures, with excellent roads and canals, with just and uniform laws protecting trade; and, finally, a state with the greatest navy and merchant marine in the world, protecting and carrying the industrial products of a large and industrious population from French ports to all the important harbors of the world. Thus would France and her king be equipped to participate in the mercantilist war for money, and thus could she triumph through the attainment of riches and become the greatest of all states.

Squarely across the path to the realization of these ideals for France lay the conditions of French society

and government. The perversity of Louis was by no means the only obstacle to Colbert's hopes. In bringing about an over-centralization of authority in the monarchy, Richelieu and Mazarin had virtually emasculated the nobility. The nobles were, in a sense, the natural leaders of the people; they should have remained strong enough, locally, to apply intelligent management to their great estates and have constituted a link in the chain of useful coöperation between the crown and the people. Instead, they became courtiers, deprived of much local political authority and so given to extravagance that they became bankrupt and parasitically dependent upon royal favors for existence. Life at the gorgeous court of Versailles was unwholesome and ruinously expensive. The cult of majesty, encouraged by Louis XIV, who thought of himself as divinely right, as the embodiment of the state itself, undermined a sane, intelligent patriotism. The ideals of grandeur, glory in war and magnificence in culture led the court and government into policies far different from those advocated by Colbert. Religious bigotry, as practiced in the revocation of the Edict of Nantes, caused the loss of energetic and skillful Protestant workers, who thus deprived the state of the very sinews which Colbert was striving to create.

Colbert's "Offer to France" was a great one, an offer not impossible of acceptance, an offer not too impractical. But it required a monarch and a group of national leaders who could be unselfish, devoted and persistent, who could pursue the less spectacular and more substantial gains of public welfare instead of "natural frontiers," diplomatic prestige and "*la gloire*."

As Lavisse has stated, the capital issue of the reign of Louis XIV was how the offer of Colbert should be received.

This offer of Colbert, reduced to simplest terms, was to fit France to compete in the world war for money. For, as we have seen, mercantilist ideas when carried to their logical conclusion really led to war for trade. In a world where men believed that the amount of trade, money and economic advantages were more or less static, this was but natural. True, Colbert did realize that when trade could not profitably be conducted in one place, profits might be made in another location; but in general he believed that what one state lost another gained. The more nearly France could be made self-sufficient, in consequence, the less she would need to import, and the more thoroughly she could be organized to compete with other states. The more productive she was, the more strength she would have in fighting for the trade of others in the mercantilist "*guerre d'argent*."

Financial weakness, when Colbert came to power, was the most serious obstacle in France to the inauguration of an ambitious program of statism. The government was not effective because it was financially poor. It was poor because it was in debt for past expenses which had not been properly met, and because there had been too many unfair and irregular advantages at the expense of the state treasury enjoyed by those to whom the state owed money. Accounts had been hopelessly tangled up; no adequate records had been kept, and some of the state's creditors were doubtless playing upon this confusion to increase the

payments exacted from the state. So confused was government finance that no one knew how much, in fact, the state really owed or how much the state's income really was. The government was poor, moreover, because its revenues were inadequate. Revenues were inadequate, not because French resources were slight, or the people as a whole too poor to pay taxes, but because the taxes were unequally assessed. They fell most heavily on those least able to pay, and incredibly lightly upon those who had the most money and could most easily have paid. The nobility and clergy, with the largest possessions, were exempt from the most burdensome taxes. Government resources were slight, also, because the taxes were inefficiently collected by a wasteful and cruel system called farming. Companies of contractors known as farmers bid, at auction, for the privilege of collecting the total amount of taxes which the government had decided to assess on a given district. The contractors then collected this total amount and as much more as they could squeeze or extort from their wretched victims. They paid the stipulated total to the government and retained for themselves the excess collected. It is not difficult to imagine the practices which they employed to gouge the peasants for all that could be wrung from them.

Colbert's first big job, accordingly, was to improve the conditions of the government debt, to straighten out the tangled accounts and to define specifically just what the state owed and, if possible, to reduce this amount to the very lowest terms. Most of this he did in an amazingly thorough and ruthless manner. He

compelled every creditor to show proof of what the state owed him. When some irregularities were discovered he severely punished the perpetrators and calmly repudiated the debts—simply wiping them off the books. On other and more legitimate debts he coolly reduced the interest which the state had formerly agreed to pay. This was rather illegal, amounting to confiscation, but so strong was the power of the crown that Colbert was able “to get away” with this process. More than four thousand state creditors were tried and compelled to pay back to the state money which they had overcharged. Over 101 millions of livres were recovered in this way for the state treasury. Much state land besides was seized as having been illegally acquired. Inefficiency was attacked and much graft destroyed with the result that the sums of money actually reaching the treasury were enormously increased. Colbert brought about an effective system of accounting for all receipts and expenditures. Having thus put the state finances in vastly better order, he turned to the problem of income.

There were five principal sources of royal or state income: revenue from the domain or crown lands; the *taille*, a direct property tax on land or personal possessions, levied only on those who were *not* nobles or clergymen; the *gabelle*, or tax on salt; the *aides*, a survival of feudal payments levied on sales, transportation and internal trade generally; and the *traites*, which were customs duties paid on exports and imports at the frontiers of the kingdom.

First, Colbert set out to improve conditions on the property belonging to the king—the royal domain

lands. Here there was much graft and waste. By vigorously weeding out abuses, dismissing the incompetent officials and checking up on details, he raised the annual income of the king, from this source, from about 80,000 livres in 1661 to over 5,500,000 in 1682.

With the *taille*, he achieved less success. Too many exemptions, in other words too many privileges, were associated with this direct property tax. The moment Colbert tried to touch these exemptions and compel nobles and clergy as well as peasants and bourgeoisie to pay this tax, there was a howl of disapproval from the privileged, and comparatively little could be done. Above all things, Colbert wanted uniformity, and he believed that equality in paying this tax should be established. Could he have brought this about and have eliminated the glaring injustices associated with the *taille* the revenue of the state would have been enormously increased, without being unfair or burdensome to any one, and one of the important causes of the French Revolution might thereby have been eliminated. Some slight reform of particularly irregular regional payments was made, and there was some improvement in the manner of collection, but on the whole no alleviation of this serious evil could be made.

In respect of the *gabelle*, or salt tax, which had been levied for centuries in a most confused and varying manner, Colbert made some reforms. At least he was able to simplify the regulations. This was a particularly hated tax because every person, in certain regions, was compelled annually to buy a certain amount of salt at a fixed price, or pay a tax equivalent to the value of the salt whether he used the salt or not. The

government-produced salt was the only salt allowed by law; its quality was notoriously poor, and there was consequently much smuggling and much bitter resistance to the purchase of government salt. The revenue from the *gabelle* increased, under Colbert's administration, by about four million livres.

For the collection of the *aides*, or internal trade revenue, there had hitherto been the most indescribable confusion. Each region, almost, had a different system; a survey of all these systems reveals, in its variety of customs and practices, the process by which France was politically and geographically built up out of different territories, bit by bit, from the days of Hugh Capet to those of Louis XIV. Some reform, by way of simplification in collection, was brought about. Attempts were made to reduce the variations in weights and measures, but in general the job was too big for even a Colbert to accomplish in one lifetime.

The *traites*, or frontier customs duties, were as diverse, irregular and complicated as the *aides*. Each province was virtually a customs zone, varying in the number and character of its taxes according to the date at which it had been acquired by the crown. Colbert succeeded in creating in the heart of France a region known as the *Cinq Grosses Fermes* (the five great farms) wherein goods could circulate freely, without the payment of customs duties as they passed from one district to another. The region was so-called from the five great societies or companies of farmers (contractors) who bid for the privilege of collecting the customs on the borders of this region. Outside, there was a second zone of provinces known as the "prov-

inces réputées étrangères" (the provinces regarded as foreign). These were Brittany, Guyenne, Provence, Languedoc, Franche Comté, Flanders and Artois. Among these provinces goods paid duties moving from one to another, and when goods passed from any one of them into the *Cinq Grosses Fermes* duties were also paid. Several regions which had not been long in French possession, such as Alsace, Metz, Toul and Verdun, Gex and the free ports of Marseilles, Bayonne, Lorient and Dunkirk, carried on free trade with foreign countries but paid duties on goods imported into the interior of France.

Good communications and freedom of transportation were primary needs, Colbert felt, for the growth of French economic power. Manufacturing, agriculture and commerce all depended upon roads, rivers or canals. At the very beginning of his service, therefore, he endeavored to repair existing roads which were in bad condition, and "like the Romans" to build new roads. In 1669 he secured the appointment of a commissioner of roads and bridges,—the origin of the present famous French system of highway administration. The wars of Louis XIV used up so much money, however, that Colbert's good road program was not carried very far. Many canals were projected, particularly that connecting the Seine and the Loire (finished in 1692) and the canal of the Two Seas connecting the Mediterranean and the Atlantic (1681). The success of these water routes was not as great, at the time, as had been hoped; too many other factors prevented a larger circulation of traffic. Too many tolls still survived from medieval times; rivers as well as roads

were subject to the collection of tolls by individuals holding adjacent lands. These tolls Colbert wished to abolish in order to render movement freer and cheaper. He proposed to the king to buy up the rights to collect these tolls; some he seized because the legal titles to the toll rights were not sound, but he was unable to purchase many of the valid rights belonging to individuals, and consequently the obstacles remained.

Agriculture, which was the chief concern of the masses of the French population, did not interest Colbert as much as manufacturing. To him, as to most of his contemporaries, farming was of course necessary but not as directly and prolifically productive of money as manufacturing. Agriculture was valuable because it was work; food was necessary. But grape culture, for the production of wine, which was one of France's most profitable activities, Colbert frowned upon. Wine made people drunk and reduced their working power and their thrift. Colbert, who was a teetotaler (unusual in France), did not encourage the vintners. To any form of soil cultivation which contributed raw materials useful in manufacturing Colbert gave support. Flax, hemp and mulberry trees, madder, and tobacco he approved. Forestry enlisted his enthusiastic interest.

In an ordinance of 1669 Colbert provided for a good administration of timber resources which saved France from deforestation. Lumber was valuable for shipbuilding; ships were the vehicles of commerce; hence Colbert's interest. The administration of the forests of the royal domain especially has been described as

Colbert's masterpiece. Hitherto, these forests had been robbed by anybody and everybody, and were approaching ruin. One of the chief foresters who was guilty of maladministration was executed and another was sent to the galleys. A new system of control was applied and a policy of conservation was inaugurated. The results were splendid. In twenty years the income from legitimately cut timber rose from 168,000 livres per year to over a million livres.

In Normandy, Poitou and Berry Colbert established stud farms for horse breeding to relieve France of her dependence on foreign countries for draft animals. The most serious deficiency, perhaps, in his agricultural interest was his failure to increase the production of grain and to secure facility of grain distribution. This was due partly to his lack of enthusiasm for farming and partly to local resistance, to the survival of tolls and to the class selfishness of the land-owning nobility. It must be remembered that institutions and customs attached to the soil are much more difficult to change or improve than those associated with cities and town life. In Colbert's time, fewer old institutions were to be encountered in connection with trade and manufacturing than in connection with agriculture. He was able to do more with the former than with the latter.

Manufactures were among the dearest of his interests and a principal cause of his laborious days. To manufacturing his devotion was marvelous. It was through manufacturing that products for sale abroad would come and thus increase the supply of bullion in France. For manufacturing, plenty of labor

was necessary. Colbert incessantly emphasized the desirability of as large a population as possible. He urged early marriages and tried, as we have seen, to reduce celibacy by discouraging monastic life and the Church as a career. He exempted families with ten or more children from all taxes—on condition that none became a priest, monk or nun. Especially did he try to attract immigrant labor and to bring to France skilled artisans from other countries. The emigration of French labor was prohibited. For the general control of all manufacturing in France, its encouragement and increase, Colbert endeavored to develop a uniform and thoroughly regulated system. His orderly mind, his devotion to the cause, led him to think that unified, centralized direction was necessary to secure the most efficient results. So systematic was his arrangement, in fact, that French industries were treated as though they constituted a veritable hierarchy. At the top of the system were the industries which produced primarily for the king and the royal household. Such was the "Gobelin Tapestry"—a noted institution which is still owned by the French state and which is still producing.

Below the establishments actually owned by the king were perhaps a hundred manufactures owned by individuals or companies which enjoyed the right to be called "royal" because the king occasionally patronized them. Many of these companies possessed special privileges, financial and legal; if they attracted workers from abroad these workers might be accorded exemptions from certain taxes and other restrictions. More important from the point of view of profitable

production than these favored plants were the new establishments which Colbert organized. He encouraged companies rather than individuals because he thought that large undertakings were more likely to be successful and better able to carry on large-scale production. To assist these companies subsidies were frequently granted, and sometimes the government placed large orders for goods which were not really needed to save a business which was threatened with ruin or serious loss. To stimulate the founding of new industries, many inducements were offered, such as the exclusive right to sell a particular article in France for a term of years; exemptions from taxes and even titles of nobility were also granted. As a result of such help, textiles, articles of taste, laces, tapestries, soap, iron, porcelain, glassware and naval stores were manufactured in increasing amounts.

For these industries Colbert created an elaborate and minute system of government regulation. Some thirty-two sets of regulations and over 150 edicts relating to manufacturing comprise his efforts. His aim was twofold, to secure excellence and uniformity in quality. Thus French goods might acquire a reputation for the highest standard. Cloth, for example, must be made according to rigidly definite measurements; each piece just so long and just so wide. Its material must be exactly of standard quality of wool or cotton or flax. No deviations were allowed and any infringement of regulations was severely punished. Furthermore, France must be self-sufficient. Unless the government provided, Colbert thought, that certain necessities were produced, individual enterprise

might neglect, for more profitable undertakings, the manufacture of such commodities and thus at a crisis the state would be left dependent on outside purchase. Also, controlled industries would use only certain raw materials which were French, and consequently the purchase of foreign raw materials could be held down to the lowest limits. To enforce such regulations was naturally a difficult task. Individual initiative and independence chafed under the host of inspectors and the endless petty rules and edicts which were applied. Colbert's name has, in this way, become a synonym for paternalistic regulation. In all fairness to him and to his system, however, it should be remembered that such details, unpopular though they might have been, were part of a grand scheme, which might, in the long run, have yielded results more than compensating for lesser difficulties.

Colbert's regulations, moreover, were not more onerous, searching and complete than those of the gilds. In many ways they resembled gild regulations, applied on a state-wide scale. The rigor and zeal of enforcement were often absurd, and Colbert has been pictured as a sort of glorified and infallible pedagogue for national industry, dictating lessons to manufacturers, keeping them in order, scolding, punishing or rewarding. Naturally there was resistance, evasion and bitter resentment. Individuals who felt that they could make more profit by evading the required standards did so, and no amount of inspection could prevent inferior materials going into goods, or the buying and selling of these goods. Results were not commensurate with the effort; industry cannot be drilled

and regimented like an army. The welfare of the state did not increase in proportion to the immense sums which Colbert allotted from the treasury for aiding and subsidizing manufacturers. At the same time, some gains were made. Some industries flourished and acquired reputations for quality which they still have. Among these are the production of lace, clothing, glass and furniture.

Above all other interests in Colbert's statist policy, and more precious to him than anything else, was *grand commerce*. By this he meant foreign, over-seas commerce on a large scale. All other activities, essential though they might be, were valuable in proportion as they ministered to *grand commerce*. Foreign commerce, in last analysis, was felt to be the principal theater of action for the *guerre d'argent*; it was here that the real prize of victory—bullion—was to be won. Colbert's devotion to *grand commerce* may be seen in his interest in the following:

1. Ships, arsenals and naval stores.
2. Tariffs and industrial protection.
3. Trading companies.
4. Colonies.
5. Dutch commerce, its conquest and acquisition for France.

Maritime power, Colbert tried to persuade the king, was essential for a policy which aimed to make the state self-sufficient, to win a favorable balance of trade and to attract bullion. France must have ships, colonies to which to send the ships and a navy to protect both. These were the weapons in the war for money. Colbert compared the 600 French vessels, about 1663,

with the 20,000 estimated as the total world number, and declared that of these 20,000 about 16,000 belonged to the Dutch. France must build ships and capture or destroy those belonging to the Dutch. Bounties were granted for the construction of French vessels. Frenchmen were encouraged to become sailors, and foreigners were sought for service in the French marine. The conditions of maritime service were improved, and regular opportunities for training were instituted. Docks and arsenals were repaired or constructed at Toulon; shipyards were built at Rochefort, Calais, Brest and Havre. Schools for seamen were established at Rochefort, Dieppe and St. Malo. Harbors were dredged and improved. The manufacture of naval supplies, pitch, anchors, cables, sails, spars and so on was especially encouraged. As a result, Colbert created a merchant marine and a navy which could hold their own in numbers, personnel and ability with the sea power of England or Holland. The eighteen or twenty first-line men-of-war constituting the naval forces of Louis XIV in 1660 had increased, by Colbert's death in 1683, to 276 ships of improved design and power. These were manned by over 50,000 sailors, classified, well trained and imbued with a good morale. If Colbert had attained no other achievement than this, he would have deserved well of France.

In the protection which he accorded to French foreign trade, we find the heart of Colbertism—the most direct application of the mercantilist theory of attracting bullion. To keep down the amount of foreign manufactured imports, to import, as far as pos-

sible, only raw materials for French manufacturing and to increase the foreign or colonial market for French goods was his constant ambition. Tariffs were his weapon. High duties were placed on foreign manufactures, lower ones on foreign raw material. Liberal bounties were given French ships, and vessels of foreign countries were taxed heavy tonnage duties on entering French ports. The export of money was prohibited. To damage the trade of English and Dutch rivals, Colbert even prohibited, at times, the importation of English and Dutch commodities. Such rigid protection was not always or consistently enforced. At times Colbert relaxed the severity. He was not entirely doctrinaire, as we have seen, and practical needs occasionally led him to adapt his tariff war with England or Holland to the exigencies of a situation. In general, his tariff wars did not succeed; both his competitors were able to maintain their trade in spite of French prohibitions. But so many factors other than tariffs explain why Colbert's vast plans for French supremacy were not fulfilled that we can hardly single out the protective régime as the only or principal cause for failure.

In colonies and trading companies Colbert sought the agencies and sources for much of the *grand commerce* which he aspired to build up. Colonies would furnish excellent monopolies wherein French trade could have absolute sway. The colonists would produce raw materials to be transported in French ships, by French sailors, to the manufacturing plants of France. The finished articles could then be re-shipped to the colonists who, in the absence of any

other articles in their markets, would perforce buy the French manufactures. Chartered companies were created by Colbert, in the highest hopes. Royal decrees gave them special privileges. The king himself bought shares and gently but firmly suggested that the nobility do likewise. Treasury grants were generously given. The French East India Company (1664), the West India Company, the Company of the North, the Company of the Levant and the African Company were either refurbished or founded and set going. They were regarded as the front-line troops in the war of money. But in spite of money grants, of exclusive rights and other special favors they did not flourish. People invited to buy stock looked upon the scheme as disguised taxation. The administration of the companies was too minute and too much controlled by the government. Officials were frequently incompetent and sometimes dishonest. Companies, generally speaking, were not as energetic or enterprising in France as individuals. It is interesting to compare the experience of the French companies with that of the Dutch or English companies. In France the companies were much more artificial creations than in either Holland or England; they were not so free, nor were they so representative of a genuine commercial interest.

With Colbert's colonial ventures matters were no better off. Vigor enough was displayed in colonial endeavor, but Frenchmen were apparently not interested in, or ready for, colonial exploitation. To begin with, Frenchmen would not migrate as did the English. Those who did go out to the colonies did not do

so in the same spirit as the English—to seek homes, or religious liberty or political freedom. Too much regulation definitely handicapped Colbert's colonial government. He issued the most minute instructions to colonial officials, desiring very sincerely to do the right thing by the colonists, and earnestly hoping for their welfare. But colonists have never readily submitted, under the hard conditions of pioneer life, to elaborate regulations issued by a highly complex civilization three or four thousand miles away. Colonial governors and military leaders, moreover, quarreled bitterly among themselves. Clergy and missionaries joined in the recriminations which were transmitted across the ocean to Versailles. There was little co-operation and no development of self-government such as characterized the English colonies. French colonies, outside of one or two West India islands, did not flourish. To some extent the population of Canada was increased by Colbert's efforts. It grew from 2500 in 1663 to over 10,000 in 1683. Meanwhile the English colonies had increased from about 10,000 during this period to over 200,000. Colbert purchased Martinique and Guadeloupe in the West Indies to serve with the West Indies company in developing a profitable tropical trade. But for a long time the French could not compete here with the Dutch. Settlements were encouraged in Santo Domingo and in Louisiana, but the results were meager. Trading posts were established in Senegal and in India with more significant results—at least, politically, but with no great economic profit.

Behind many of his troubles with *grand commerce*,

companies and colonies, Colbert detected the success and rivalry of the Dutch. "The Dutch," he declared, "have employed and are still employing every means, all their power and all their industry to concentrate in their own hands alone the commerce of the world; to deprive all other nations of this commerce." He therefore believed "that commerce causes a perpetual combat, both in peace and war, between the nations of Europe. . . . If [Louis XIV] should subject the provinces constituting the Netherlands, their commerce becoming the possession of His Majesty's subjects, no advantage could be left to be desired." Believing, as many mercantilists did, that the amount of gain in the world's commerce was static, Colbert thought that what the Dutch gained the French must lose, or at least go without. In the Dutch trade, their vast number of ships, their rich East India company, their profitable carrying trade in the Baltic, and in their successes in the West Indies, he saw, with envious eyes, the mercantile power which France must have. In his determination to organize France and create means for getting this trade away from the Dutch, conquering them by force if necessary, we see why mercantilism may be called a war for money. The logical conclusion of these mercantilist ideas—static amount of gain, balance of trade and value of bullion, is apparent in Colbert's readiness to resort to what he ordinarily regarded as horribly wasteful and stupid, namely, war. But if France could only prosper at the expense of some other nation, say, the Dutch, so much the worse for the Dutch. To Colbert foreign trade, in last analysis, was essentially a war

of extermination. At all costs, he would either ruin Dutch trade so that what the Dutch lost France might gain, or he would conquer the Netherlands and thus incorporate their trade with that of France. The only one of Louis' wars of which Colbert fully approved was that of 1672 with the Netherlands. This received his unqualified approval and stirred his hopes and ambitions to a high pitch. But the war, like many of Colbert's more peaceful schemes, totally failed of his object.

Dutch trade was not ruined, nor were the Dutch conquered. What trade the Netherlands lost went mostly, not to France, but to England. It was England which was destined to be the great commercial power of the future. The Dutch strength was already beginning to decline. But Colbert did not appreciate this, although to some mercantilist observers of the time there were signs that the greater resources and advantages of England would, in the long run, out-distance those of the Dutch. It was England, therefore, which was destined to be the real rival of France.

Nothing indicates more clearly the obstacles which Colbert's plans encountered than the general apathy and indifference of those elements in French society which ought, in patriotism and intelligence, to have been ready and willing to assist him. But already, as we have seen, the nobility was in the process of transformation from a genuine landed aristocracy into an ineffective group of court parasites. The very fact that tradition still prevented a noble's son from engaging in commerce or industry "*sans dérogance*," i.e., without losing social caste and prestige, indicates

why Colbert's companies and colonies did not succeed. In vain did he point out the superiority of the English and Dutch in this respect and note that the sons of English peers contributed a most energetic and intelligent leadership to English economic enterprise. In vain did he secure fiats from the king to the effect that participation in the stock or trading activities of the great companies, or in other economic enterprise, might be undertaken "*sans dérogeance*." The nobility did not respond. Too much of a devotion to the noble art of war, too much pursuit of *la gloire*, too much glamor of Versailles, obscured the humbler bourgeois activity of commerce.

In a rather interesting book called "*Le Parfait Négociant*" (The Ideal Merchant), published in 1675 by Jacques Savary, there exists the picture of Colbert's ideal for a merchant of France. It is not improbable that Colbert inspired this book and perhaps participated in its production. In its statement of the best form of education for a prospective business man, its complete exposition of the nature and value of trade, and in its discussions of the needs of French commerce, we have a practical manual for the building up of an economic personnel, which alone could have made of France that powerful state dreamed of by Colbert. This personnel France lacked, and consequently Colbert's dreams did not come true. But his failure was, in a sense, a glorious one. His vision was a great vision, great, at least, in the light of his times. And after all, much of permanent value he did accomplish. In addition to the simplification and improvement of the financial system, the state revenues, for-

estry, the merchant marine, the navy and some phases of industry and commerce, he made extensive intellectual contributions.

Colbert has been called the Justinian of France because of his efforts to secure the codification of the varied and disordered laws of the realm. With the assistance of his uncle, Pussort, and of Savary he did succeed in bringing some system and order by the following:

The Civil Ordinance. 1667.

Ordinance on Forests and Waterways. 1669.

The Criminal Ordinance. 1670.

The Ordinance of Commerce. 1675.

The Ordinance of Marine. 1681.

He also reduced the number of superfluous judges and shortened the length and expense of court trials. In the sphere of literature and the arts he was an active patron. His encouragement of the French Academy, the foundation of the Academy of Sciences (now the Institute of France), the Astronomical Observatory at Paris and the erection of many buildings are all monuments which still tell of the breadth of his interests and of his restless energy.

Beyond all these considerations, however, it is fair to say that Colbert's "Offer to France," though falling far short of complete acceptance and realization, was sufficiently carried through to put new life and strength into France. Without this vigor she could have never survived for three-quarters of a century the wars and extravagance of Louis XIV. True enough, the Revolution did come. But it will always be one of the fas-

cinating "ifs" of history to ask whether, had Louis XIV more completely accepted Colbert's "Offer," there would ever have been the need of a Revolution.

Under Colbert, mercantilism, or statism, had its innings. Nowhere else, as we have observed, was it more fully or vigorously applied. That it did not succeed because of its inherent faults is not proven. Too many other factors, as has been pointed out, were involved: the personality of Louis XIV, the wars, medieval survivals, the temper of the French people. It is clear, however, that in so far as mercantilism was carried to its logical conclusion in international conflict for the self-sufficiency of a state, for the conquest of trade and bullion, for "world power," it was producing results which were, and still seem to be, beyond the strength of men to control or of their imaginations to conceive.

III

FROM MERCANTILISM TO ADAM SMITH

By the time Louis XIV died, in 1715, nearly all of the great changes which constituted the Commercial Revolution had taken place. For the next hundred years the most revolutionary economic changes were to be agricultural and industrial. The 18th century was a period, however, in which the effects of the previous commercial changes were tremendously important. European civilization expanded, with trade, into new worlds and was in turn affected profoundly by the reaction upon Europe of developments in colonial regions. The volume of commerce increased greatly and contributed to the causes for changes in agriculture and industry. The bourgeoisie, moreover, the chief manipulators of commerce, became more and more important between 1700 and 1800. Their growing interests were largely responsible for the social and political upheaval which occurred throughout Europe during 1789-1815 and subsequently. It is therefore in the 18th century that we see the immediate consequences of the Commercial Revolution.

Commercially the 18th century was the period of England's rise to predominance. Dutch commerce had definitely declined to a point where it was no longer a serious competitor. The Netherlands still retained, it is true, their vast East Indian Empire, with its im-

portant commerce. The bankers of Amsterdam still remained perhaps the wealthiest group of capitalists with a great influence in the field of investment, but in the world's carrying trade generally, and in the West Indian and North American commerce in particular, their activities had been outstripped by English shipping. Spain's commerce had also markedly declined; never extensive outside of Spanish colonies, even here it was reduced to a moribund condition. The economic decay of Spain herself, and the poor and unenterprising administration of the colonies—the Philippines, Mexico, Central and South America and the West Indies—conspired to render a once mighty empire an almost negligible quantity. French commerce was seriously handicapped by the extravagant policy of Louis XIV. After the death of Colbert there was, for a long time, no strong commercial advocate at court.

On the eve of his last and most ruinous war, however, Louis XIV apparently realized the importance of commerce. In 1700 he caused to be revived the Council of Commerce, an institution of long standing, but one which had of recent years fallen into disuse. To this Council the king summoned a representative from each of the most important commercial centers of France. From each of the twelve good bourgeois thus assembled he asked a general report on the economic condition of his region, with suggestions for promoting the welfare of commerce. The shade of Colbert must have risen up to preside over this Council. The documents submitted contain an interesting survey of French trade and an indication of a sur-

prisingly vigorous commercial life. Despite the setback of the disastrous War of the Spanish Succession (1702-1713), French commerce revived. By the middle of the century the French were serious rivals, once more, for English trade. Even the Spaniards, in the period of comparative peace which followed 1713, resumed an economic activity and became once again, though temporarily, a great commercial power.

England, at the beginning of the 18th century, was admirably equipped to take every advantage of the commercial possibilities. Compared with any of the European states, she possessed a government more suited for fostering and protecting economic activities. Her parliament, though by no means democratic or completely representative, gave an ample scope to the interests of a class devoted to trade. Within the Whig party grew up a large group of powerful commercial families who, through Parliament, virtually ruled England for over a century. In no other instance, except possibly in Venice or in the Netherlands, did the bourgeoisie more conspicuously consolidate their power and govern a state so effectively in the interests of commerce as did the 18th century Whigs of England. Nowhere else did a commercial aristocracy of this sort create a great empire, an empire which became the wealthiest commercial power in all history.

England began the 18th century with a number of institutions which were to be of great value to her commercial growth. She had, as we have seen, a sound coinage, a national financial center in the Bank of England and an organized national debt. These institutions gave stability, certainty and strength to

English credit and to the activities of her merchants. England's insular location was also of advantage; she had been comparatively immune from serious invasion; she had not been torn and ravaged by wars for over two centuries. Her ports, moreover, were numerous and good; for the trans-Atlantic trade they were relatively better situated than those of the Continent. Her most valuable colonies, furthermore, were fortunately located in temperate zones suitable for English settlement.

More important, perhaps, than any of these considerations was the general stability of English life. This stability, based on a fairly contented population, a generally accepted religious adjustment and the leadership of an intelligent and sensible aristocracy created a confidence in government and in public institutions. This confidence made possible the growth of investments in English commercial enterprises. Dangers of revolution, caprice in politics or public temper, were not so much to be feared as in other less stabilized societies. English regard for law, the system of courts, and the comparative immunity of justice from political interference contributed more than anything else, possibly, to this confidence. Property and the sanctity of investments, which might be classed as property rights, were probably better protected and more solidly respected in England than elsewhere. Such regard for possessions, whether landed or commercial, became undoubtedly too much a worship of property, but in the 18th century such worship had much to do with furthering England's remarkable commercial development.

During the wars from 1688 to 1713 in which most of Europe participated to prevent Louis XIV from becoming too powerful, England was able to keep up "business as usual." Although she joined in some of these struggles she did not draw relatively as much upon her own resources. Both her allies and her enemies paid a higher price than she did. The wars were not fought upon her soil; she was secure, except for minor incursions, from invasion. While other states were drained of men and money and were wasted with the ravages of campaigns, her merchants, protected by a strong navy, continued their trade. English merchants profited by the discomfiture of their rivals to make gains in the carrying trade of the Mediterranean and the Baltic; they sent an increasing number of ships into the ports of India and Africa; their shipping to both North and South America grew rapidly. The events of war itself were turned to commercial advantage.

In 1703, by aiding Portugal against Spain and her French ally Louis XIV, the English secured the Methuen Treaty. In this treaty, Portugal agreed to purchase all her woolen goods from England, admitting them, as well as other British manufactures, duty free. In return, England virtually excluded French wines by prohibitive duties two-thirds higher than those charged on Portuguese wines. This treaty explains why, incidentally, port wine (so called from Oporto, in Portugal) and sherry (so called from Jerez, near Cadiz) became so familiarly associated with English diet. "Madeira" also obtained a wider market in England. The Methuen Treaty dealt a severe blow to

both France and the Netherlands. Not only did France lose, in England, a valuable customer for her wines, but both countries lost much of the export trade they had hitherto carried on with Portugal. With Brazil also, Portugal's largest colony, England thus acquired a considerable trade in gold, diamonds and tobacco. Both mother country and colony henceforth furnished an almost exclusive monopoly for the sale of British manufactures. Until the present time Portugal has been practically an economic dependency of England. It is not difficult to see why the rivalry of French and English trade grew more and more bitter.

In 1704, as a part of the military and naval operations to prevent Spain from becoming a satellite of France, the British captured Gibraltar. The possession of this massive rock gave England that key to the Atlantic entrance of the Mediterranean which she holds to this day. As a naval station for controlling the Mediterranean this fortress has been very important. It has been no slight factor in the protection of English Mediterranean commerce as well as the trade which England has had down the West Coast of Africa and on the route to Cape Colony and to India.

By the Act of Union with Scotland in 1707, English commerce gained freedom of trade with Scotland and the added strength of Scotch thrift and enterprise.

Of this rapid expansion of trade the effect is seen in the accumulation of capital in Great Britain. Amsterdam had hitherto been the chief reservoir of European capital—at least since the 16th-century accumulations of the Fuggers and Welsers. Dutch finance

retained its importance long after the commercial activity of the Netherlands had been reduced in the competition with England, and it remained important throughout the 18th century and well into the 19th. But in England, too, more money than ever became available for investment. Capital began to seek investment in many ways, especially in the formation of new companies. In 1695 the Scottish parliament had chartered a company for the purpose of colonizing the Isthmus of Panama. This Darien Company, as it was called, proposed to develop trade with Asia, Africa and the Americas. The enterprise was begun in 1698 but proved a failure and was abandoned in 1700. A few years later, however, a somewhat similar opportunity for investment appeared in the financial projects grouped together under the name of the South Sea Company. This was incorporated in 1711 with the object of trade with lands in the "South Seas," meaning thereby the Southern Atlantic and Pacific Oceans.

The South Sea Company received from the English government a grant of the exclusive right to trade with South America and the Pacific Islands, which were supposed to be fabulously wealthy in mines and various commercial possibilities. In return for this grant, the company was to take over about \$50,000,000 of the national debt, reduce the amount of interest which the government paid on this debt, and issue shares of company stock to the creditors in place of their government bonds. By selling additional shares to others, the company planned to make enough money to carry this debt load and increase trading opportunities by exploiting its monopoly. At first the company pros-

pered. Stock was sold extensively. New opportunities came; in the Treaty of Utrecht, 1713, England acquired the *asiento* privileges. The *asiento* was the right accorded by Spain for a monopoly of importing slaves into the Spanish colonies, and also the right to send each year one ship of 500 tons freighted with British manufactures to the colonial ports of Vera Cruz and Porto Bello. These rights the government turned over to the South Sea Company, which might thereafter import into Spanish colonies 4800 slaves annually for thirty years. The privilege of importing manufactures in the one ship was grossly abused, in practice, by sending along numerous "escort" ships which, under the pretext of reprovisioning the trader, simply passed an endless stream of manufactured articles through her to the Spanish port. In 1750, long after the collapse of the South Sea Company, England gave back the *asiento* to Spain in return for a lump payment of \$500,000.

With the acquisition of the *asiento* the credit of the South Sea Company rose rapidly. Its stock began to go up in value; the higher it went, the more people wanted to buy it. The idea spread among the English people that here was an opportunity to get rich quick. In a sense the significance of this development lies in the widespread acceptance of the practice of investments and the growth of the notion of speculation in stocks. Back of both this practice and the idea lay, substantially, the existence of credit. People believed that the investment was sound because it was backed by the government, and Englishmen had no doubt of the stability of their government. Dynasties

might change, but the Constitution and Parliament remained. The company's credit was good because the government was sound. Extensive investment by people in the company's stock also indicates the relatively large amount of money in England. So profitable did South Sea Company stock appear to be and so eager were people to buy that a great demand for other investment opportunities occurred. South Sea stock rose from \$500 a share to over \$5000. At this figure the company sold \$25,000,000 worth of shares. The result was the organization of a great number of companies, either in imitation of the South Sea Company or for many other purposes. A wild mania of speculation ensued. Some of the new companies were legitimate undertakings for industries, town waterworks, trading ventures and so on. But many of them were pure frauds organized simply to sell fake stocks for good money. The utter absurdity of some of them reveals the inexperience of 18th-century investors. After all, however, many of our 20th-century wild-cat schemes, gold-bricks, oil and motor car stocks are hardly less foolish. Proportionately as many people burn their fingers to-day, trying to get rich quick, as was the case in the great South Sea Bubble. It is certain that our Chambers of Commerce are still campaigning against fake stock-salesmen. Among these earlier absurdities were companies for fishing up wrecked treasure galleons, making salt water fresh, making oil from sunflower seeds, producing perpetual motion and—the crowning imposture of all—for "an undertaking in due time to be revealed." People actually bought stock in such com-

panies. It was estimated that, in all, some \$1,500,000,000 was invested largely in such crazy schemes.

Ventures of this sort, and a general carelessness in investment, naturally began to undermine the credit of the South Sea Company, and the confidence in companies altogether. The inevitable crash was hastened, however, by the fate of a similar company in France. A Scotch financier named John Law had succeeded in convincing the Duke of Orleans, Regent of France, of the financial possibilities of credit. In 1716 he demonstrated the advantages of bank notes, through a private banking venture, and succeeded, thereby, in raising French government credit. Gaining the confidence of the Regent, he was permitted, in 1718, to establish a government institution—the Royal Bank. Law then began successful operations with this bank and proceeded to the development of his "system." His system consisted of the creation of a great trading company similar to that which had been created in England. To the bank he added the Mississippi Company, a vast scheme for the colonization and exploitation of the new French possession of Louisiana. Two hundred thousand shares were issued at 500 livres a share. As was the case in England, the public grew interested; the price of shares began to soar, reaching, in December 1719, the figure of 20,000 livres, forty times par value. In France, too, a frenzy of stock speculation followed. Trade was temporarily stimulated; prices rose. Every one seemed to be getting rich. Nobles, bourgeoisie and even the Regent joined in the buying and selling of shares. A tailor was reported

to have made 70,000,000 livres in speculation, and the Duke of Bourbon 60,000,000. But Law grew reckless in the management of his company, issued too many bank-notes, planned too many undertakings and made too many promises. Wise speculators began to sell their shares, and bought land, houses and other substantial property. Confidence in the bank and in the company began to waver. In the summer of 1720 the crash came. The "Mississippi Bubble" was pricked, and the whole system came tumbling down. Law was forced to flee from France, a broken and discredited man.

When the news of the wobbling of Law's "system" began to reach England, the government grew apprehensive and measures were taken to check the operations of the wild-cat companies. This aroused public suspicion as to the stability of the South Sea Company. Stock began to fall. Panic followed. Another bubble had burst. Thousands were ruined in the South Sea calamity. A Parliamentary investigation followed. Corruption and fraud were discovered and many people were punished. The modern world had been thoroughly introduced to large-scale commercial speculation.

During the rise of the South Sea Company, an event occurred which gave to England a more substantial basis for future commercial prosperity than the alluring riches of stock speculation. In 1713 was signed the Treaty of Utrecht. This brought to an end the war of the Spanish Succession, and increased, at the expense of Spain and France, the advantages of British commerce. From Spain, as we have seen, England

acquired Gibraltar and the *asiento* as well as the island of Minorca. From France she received the Hudson's Bay region, Acadia and Newfoundland. With these substantial additions to her existing American colonies, England's trade mounted constantly.

Great commercial possibilities were now appearing in these British possessions in North America. Their climate, as we have noted, was temperate, suitable for Englishmen. Population began to increase steadily after the opening of the 18th century. In industry and in the wealth which labor produces these colonies bade fair to become extremely valuable. Virginia and Maryland exported tobacco to England in large quantities, and purchased British manufactures in return. The Carolinas exported rice to Spain and Portugal, but bought British manufactures. From the northern colonies lumber and fish were exported to Mediterranean ports. Food products were shipped in many directions from the Middle colonies. Throughout the first half of the 18th century, all these colonies steadily prospered. Georgia was settled, and from the older communities adventurers began to push trading activities into the Ohio valley. Firmer control was established over the British West Indies. French and Spanish pirates were driven from the islands and a flourishing trade between them and the Atlantic-coast colonies sprang up. Between 1698 and 1751 British trade with the American colonies increased from about \$3,250,000 in value to over \$10,000,000.

In this period grew up the famous "triangle trade." By this trade ships from New England carried Medford rum and other New England products, especially

fish and timber, to the West Coast of Africa. There they exchanged their cargoes for slaves. These slaves were then taken to the West Indies, both French and English, where they were bartered for sugar cane or molasses. These West Indian products were then transported to Boston for manufacture into rum. Legally, French, Spanish or Dutch West Indian molasses could not be imported into British colonies. But the American colonists were not to be balked of tempting profits by British "Molasses Acts" or any other trade regulations of mercantilist type, and smuggling went actively on. The British government was generally lenient toward this irregular trade, and so the trade grew prosperously.

As commercial profits increased, the English, as well as the colonial, appetite increased. Under the safe and sane administration of Robert Walpole (the first "Prime" minister of England, 1721-1742), Britain enjoyed a peaceful and fruitful period of twenty years. The Hanoverian dynasty was established on a secure foundation. Under George I and George II, who were more concerned with European than with English affairs, Walpole was able to pursue his policy of economy and the fostering of the landed and trading interests. He straightened out the tangled wreck of the South Sea Company, and for a long time steered clear of European complications. But eventually the growing trade of England sought greater opportunities than those available under peaceful conditions. Merchants became eager for more and ever more profits. Their aggressiveness forced Walpole into a typically mercantilist expedient—a war for money.

Rich possibilities of trade with the Spanish colonies greatly tempted English merchants. They desired to break through the exclusion which Spain had hitherto maintained against foreign trade with her colonies. English ships were constantly putting into Spanish-American ports under pretext of refitting, but really—in violation of Spanish prohibition—for the purpose of illicit trading. Inasmuch as Spanish trade was not particularly brisk, the colonists were ready enough to do business with the English. The privileges of the *asiento* were regularly abused, as has been noted. Such flagrant violations of Spanish regulations finally led the Spanish government, naturally enough, to enforce their trade prohibition and try to suppress this English interloping. Harsh measures, unfortunately, were sometimes taken by the local authorities. English sailors were arrested, legally indeed, but were frequently treated barbarously. It is fair to say that the Spaniards were acting within their rights, although not always with discretion or humanity. The English, however, did not suffer the ill treatment in vain; the barbarities which they charged against the Spaniards were played up as a cause for a much desired war.

Spanish atrocities became almost as popular in England between 1730 and 1739 as the alleged German atrocities in Belgium in 1914. Loud complaints against Spain were poured by English merchants into Parliament. Walpole was besieged with demands for redress. Sailors were produced to tell harrowing tales of Spanish-American dungeons, tortures and mutilation at the hands of Spanish coast-guards. The famous Captain Jenkins told the pitiful story of how

his ship was boarded by Spanish guards who cut off one of his ears. To prove the story Jenkins produced a roll of cotton containing the amputated ear. When asked what he had done after the attack, Jenkins is reported to have replied with piety and patriotism, "I commended my soul to God and my cause to my country." Needless to say no explanation goes with this stirring tale as to what the worthy captain and his ship were doing in Spanish waters.

In spite of Walpole's attempt to prevent war and adjust matters with Spain by treaty, the mercantile interests and the ultra-patriots, aided by William Pitt, forced a declaration of war in 1739. Thus, for an almost purely commercial cause, for an aggressive desire for economic gain, had a war been produced. The English people, expecting an easy victory over the decrepit power of Spain, and hoping for much plunder, went light-heartedly into the struggle. Walpole is said to have remarked, "They may ring the bells, now; before long they will be wringing their hands." He was right. The "War of Jenkins' Ear" (1739-1741) was not the easy conquest which England had expected. In spite of some victories and some gaining of plunder, an English expedition against Cartagena, "the strongest place in Spanish America," was disastrously defeated. Spanish attacks on English shipping caused heavy losses. And the war, instead of being properly terminated with a dictated English peace, merged into the long-drawn-out wars of the Austrian succession. (These wars are also called the Silesian wars and by various other terms in the colonies.) France joined Spain against England, and the

conflict spread from South America to Europe and to North America.

When a temporary peace was finally made at Aix-la-Chapelle, in 1748, the English found that they had made none of the coveted gains. England had not gained admission to Spanish trade, although the *asiento* was extended for four years. Vast expenses had been incurred—heavier, perhaps, than an equivalent of the expected gains in trade. England's naval power had been seriously threatened, and only toward the end of the conflict had she been able to assert her supremacy. She made no colonial gains of any consequence.

In both Spain and France, meantime, occurred notable economic developments. In spite of the set-back which French commerce and industry suffered as a result of the Treaty of Utrecht and the feeble policy of the two or three decades following 1713, France recovered rapidly. From 1748 until 1756 French recuperation was remarkable. As the mercantilist restrictions of Colbert's time disappeared, private industrial and commercial initiative increased. The traditional prejudices of the nobility against losing caste by engaging in trade began to weaken; the merchant class became more numerous and influential. The government began more intelligently to assist and stimulate commerce. The restrictions on freedom of action and the vexatious regulations were eventually relaxed. Industry consequently improved. The manufacture of textiles, leather-work, soap, jewelry, lace and particularly pottery and porcelain prospered. It was at this time that the famous Sèvres porcelain establishment

was built (1756). It was acquired by the state, and is still operated by the French government. Commerce with the Austrian Netherlands, Holland, the Germanies, Scandinavia and Russia grew extensively. Nantes, Bordeaux and Marseilles developed French trade with Spain and the Mediterranean ports.

Although the French navy had been neglected since the time of Colbert, the French flag had not wholly deserted the seas. The hardy seamen of Brittany and Normandy supplied shipping, both naval and mercantile, with a personnel and with action. Although France lost heavily at the Treaty of Utrecht, she still had vast colonial possibilities. Besides Canada and Louisiana, she possessed valuable "sugar" colonies in the West Indies—Hayti, Martinique and Gaudeloupe, various trading posts on the coasts of Africa, and a footing in some of the ports of India. Her courageous Jesuit missionaries and the adventurous *coureurs des bois* assisted the growth of trade in these colonies with the mother country. Even the failure of the Mississippi Company did not destroy French interest in colonial ventures. Capital continued to be invested in this trade, and although French profits did not total up, perhaps, to such figures as those of English commerce, they became increasingly important. Heavy trading in sugar, coffee and molasses from the West Indies ensued, and there developed a trade in cocoa, spices, beef, hides and cotton.

In India France was, at first, ably represented by such men as Dupleix and Labourdonnais, whose skillful dealings with the Indian rulers led to a prosperous

trade between France and India. Had there been no war between France and England for a score of years following these promising beginnings, it is possible that French economic power might have become a much more dangerous rival of England than it actually was in 1756.

Spain, instead of losing her colonies or her commercial wealth to England in the War of Jenkins' Ear, enjoyed a temporary revival of industry and commerce. Economic improvements were undertaken with a view to improving Spanish agriculture and industry. Trade with the colonies and with France increased. Trade with the colonies and with France increased. Restrictions on colonial commerce were reduced. All Spaniards were allowed to participate in the colonial trade, and the colonies were allowed to trade with each other. Cuba was developed and began to export large quantities of sugar, coffee and tobacco. This Spanish prosperity continued fairly steadily until the upheaval of the French Revolution.

It was, in part, this prosperity of French and Spanish commerce which led, in 1756, to the outbreak of one of the most fateful wars in history. The Seven Years' War (the Third Silesian, or French and Indian War as it is variously called) was really a resumption of the continental struggle for the Austrian succession. This had begun in 1740, and into its course had merged the War of Jenkins' Ear. In 1756, due to the growth of English commerce and the increasing rivalry of English colonists and traders with those of France and Spain, the struggle spread to America and to India. The war became a great duel for empire. The outcome was to decide, not only questions of French or

English political and cultural supremacy over vast areas of the globe, but also questions of economic imperialism. It was, potentially, a great commercial and industrial conflict. Emerging victorious, Britain became the mightiest industrial and commercial empire which the world has yet seen. The victory was won, in large measure, as the result of England's greater economic resources, her superior naval power and, in America, the strength of her colonists. All these factors, it may be noted, were more or less related to English commercial development.

Contributing to this commercial development, several important economic features of 18th-century England must be noted. A revolution in agriculture was going on. Hundreds of small farms were being merged into large ones by enclosure acts. Large-scale production of food and raw materials was beginning. More capital was employed, intensive cultivation by improved and more scientific methods was undertaken. An enormous increase in the amount and value of agricultural products followed. Contemporaneously, also, a revolution in industry occurred. Manufacturing of textiles, iron, glass, hardware, pottery, shipbuilding and the mining of both coal and iron increased greatly. Mechanical devices, steam power, improved factory organization and better means of transportation combined to carry along this industrial revolution by leaps and bounds.

Commerce was both a cause and a result of these extraordinary changes. As profits from trade created additional capital, and as increased demands for manufactured goods came from colonial and other markets,

a stimulus was given for more manufacturing. As more, better and cheaper goods were produced, commerce was stimulated to market them. And so a merry increase continued in almost every form of economic activity. No serious competitor now interfered with England's trade; in India the French losses of 1763 left a free field for a great extension of British activity. In the Far East, also, markets which had formerly been monopolized by the Dutch began to witness English intrusion. In the American colonies, marvelous commercial opportunities existed. A growing, energetic and thrifty population, now freed from French rivalry, was creating almost unlimited possibilities of trade. In agriculture, cotton, tobacco, rice, grain and live-stock were produced for export. Fur and leather were also important items of trade. Fishing, lumbering and ship-building were contributing heavily to colonial growth.

In these colonial economic activities there was no serious competition with important British industries. A reasonable agreement between the capitalists and manufacturers of England, on the one hand, and the economic leaders of the colonies on the other, might well have been reached. Thus, the resources of the empire might conceivably have been brought together in a fairly harmonious whole, with what amazing results we can only imagine. But such was not to be. We see again the fateful results of the Seven Years' War. To aid in carrying the financial burdens of the struggle, the British Government desired colonial assistance. The colonists had benefited greatly by the defeat and expulsion of the French. Britain

had paid most of the costs, and now expected contributions from the colonists, especially for the further maintenance of imperial protection. British merchants, moreover, expected that they would find in the colonies rich fields for exploitation. Mercantilist ideas about colonies survived sufficiently to lead many British merchants to think that they could procure raw materials at low rate from the colonies, gain the profit on transportation and manufacture, and then enjoy the exclusive privilege of selling the product to the colonists. They hoped to prevent the growth of colonial manufactures. They desired to confine colonial trade, as much as possible, to England and British colonies. It is only fair to say, however, that in many instances the Navigation Acts and other similar acts protected certain recognized colonial economic interests against the competition of the mother country; the restrictions on colonial manufacture were not wholly one-sided.

Trouble came, as in the case of the War of Jenkins' Ear, because the British commercial and industrial interests were not content with the profits they were making. They wanted more. But the colonists, too, wanted more. In addition to the benefits which accrued to them after 1763, they sought to extend their trade and their profits. When the British government attempted to secure, through taxes, a not unreasonable contribution to imperial finance, and when they attempted to favor British trade by reviving and enforcing the rather defunct mercantilist restrictions on the colonists, the latter resisted. The American colonies had really been growing into a new nation, too strong

and too independently minded to submit to any but the most considerate and lenient control. Whatever may have been the forces which underlay the American Revolution, it was primarily financial and commercial affairs which provoked the outbreak of war. So Britain lost one of the most potentially valuable colonial empires which it was ever the fortune of a state to possess.

Compensating, in some degree for this loss, were important contributions made, during the 18th century, to the increase of English shipping, the improvement of navigation and the growth of marine insurance. Ship-building and ship operation had, of old, the protection of the famous Navigation Acts. These provided that certain commodities should be imported into England only in English ships, navigated by English captains and manned by crews of whom at least three-fourths must be English subjects. To these advantages were added, early in the century, bounties given by the government to builders of ships. Special inducements were offered, also by the government, to encourage men to become sailors and enter the navy or the merchant marine. A sort of marine employment bureau was created in which sailors could register their applications for berths. A great hospital was developed, at Greenwich, for old and disabled sailors. To assist in the improvement of navigation, Parliament appropriated, in 1740, money for a survey of the "coasts of the British Islands and the Plantations." Accurate charts thus became available. Money was also appropriated for the celebrated scientific voyages of Captain Cook. Numerous harbor improvement

acts, for the buoying of channels, the construction of docking facilities and for other port needs were passed. Lighthouses became more numerous. The famous Eddystone Lighthouse, off the Cornish coast, was rebuilt by John Smeaton in 1756. Boston Light, one of the first of the well known beacons, was established in 1716. The "Lizard," off the southernmost tip of England, was built in 1751. Trinity House, an ancient corporation or gild of mariners, became more important than ever in the 18th century. It served as an agency for pilots, the direction of dockyards, the supervision of maritime regulations, the maintenance of buoys and the erection of lighthouses. Trinity House is still in existence, controlling the licenses of pilots, managing over a hundred English lighthouses and maintaining the markers of channels.

To improve the means for determining the position of ships at sea had long been a matter of concern for the governments of all the maritime nations, especially of Holland, France, Spain and England. All desired more accurate ways of determining longitude at sea. As early as 1675, King Charles II had provided for an astronomical observatory at Greenwich and the appointment of an astronomer to work out data for navigation. Thus was established perhaps the most famous and useful of all astronomical laboratories. In addition to data furnished seamen by the Greenwich observatory, the 18th century saw some even more important contributions to navigation. Modern navigation really dates from about 1731, when John Hadley, an Englishman, produced the sextant for measuring angles on the celestial sphere. A sextant was also

developed independently by an American, Thomas Godfrey (1730), a Philadelphia glazier. A "New Mariner's Kalendar" was calculated by an Englishman named Colson, and Maskelyne, the Astronomer Royal, produced a nautical almanac, both of which greatly facilitated accurate navigation. In 1714 Parliament had authorized the appointment of "Commissioners for the discovery of longitude by sea." This body was to administer the huge prizes of \$50,000, \$75,000 and \$100,000 voted for the production of timepieces or chronometers which would determine longitude within sixty, forty and thirty minutes, respectively. Such liberality indicates clearly British interest in furthering commercial and naval welfare. A clock-maker, John Harrison, offered in 1735 a chronometer which, after various tests and improvements, finally won the \$100,000 prize. This chronometer determined longitude within eighteen minutes. The commissioners were also authorized, in 1745, to offer a \$100,000 prize for the discovery of a Northwest Passage, and in 1776 a similar prize for the discovery of a Passage, either northwest or northeast. A \$25,000 prize was offered for that British ship which should approach within one degree of the North Pole.

It was also during the 18th century that Lloyd's, one of the world's greatest associations of mercantile interests, became important. Originally, in the 17th century, a coffee house, where merchants gossiped and drank coffee, it became a center for shipping news. *Lloyd's News*, one of the earliest of newspapers, furnished the latest information on the arrival of ships, their cargoes and the location of expected ships. This

paper became, eventually, *Lloyd's List*, the most complete and important shipping register now in existence. Among the merchants congregating at Lloyd's were the underwriters of marine insurance. Up to this time insurance of any kind—marine, fire or life—had been only irregularly practiced, and at great risk. At Lloyd's was developed the earliest practice of insurance as a business. By introducing a printed form of policy for marine insurance a significant step was taken. The form of policy agreed upon, January 12, 1779, still remains, with few changes, the standard now employed. Marine and other forms of insurance grew rapidly and exercised, with their contributions of confidence and stability, a great influence upon the conduct of business.

It may be stated, in concluding this survey of the changes in the practice of commerce, that the marketing of investments, stocks and bonds became systematized and regularized during the 18th century. The London Stock Exchange was definitely organized and acquired regular headquarters near the Royal Exchange and the Bank of England.

Concurrently with these 18th-century changes growing out of the Commercial Revolution there occurred a great modification in economic ideas. The principles which the mercantilist had advanced during the 17th century no longer sufficed. Commercial expansion and the many new factors of the agricultural and industrial revolutions were complicating the problem of explaining wealth, and the sources of a state's power. To account for the strength of a nation now required more than reference to the supply of bullion

or the balance of trade. Many of the mercantilist ideas lived on, indeed, as they still do, but certain important defects in mercantilist arguments appeared. New ideas also supplanted the old.

Toward the end of the 17th century, in fact, some of the fallacies in mercantilism had been exposed. A group of English merchants who were desirous of increasing their trade with the East Indies attacked the mercantilist doctrine of the importance of keeping bullion in the country. Their trade was such that it employed much specie. Silver was necessary in the trade with India, and the existing restrictions on its export prevented an adequate use of bullion. In many ways, these men subscribed to mercantilist ideas, but in this particular respect they found that mercantilism and their special interests were inconsistent. So they sought reasons to show the fallacy of this aspect of mercantilism. In "A New Discourse on Trade" (1690), Sir Josiah Child, although clinging to balance of trade theories, began the undermining of the bullionist theory by stating that one country could not indefinitely sell to another country without ever buying anything in return. The export of precious metal might therefore become necessary and useful. Sir William Petty also pointed out in his "Political Arithmetick" (1691) that there may be such a thing as an excess of money within a state as well as too small an amount. Petty is famous as one of the first to demonstrate the importance of comparative statistics in dealing with the problems of trade and government. His views of what constituted the real wealth and power of a state were, in many

instances, at variance with current mercantilist ideas. He particularly emphasized the notion that "labor is the father and active principle of wealth." Another even more vigorous attack on the old ideas came from Sir Dudley North whose "Discourses Upon Trade" (1691) declared that wealth may exist independently of gold and silver, and that foreign trade is not necessarily more valuable than the internal trade of a state. In general he disapproved of state regulations for trade. All trade is important, he said, and should be allowed freedom, even if this freedom calls for the exportation of bullion. One step beyond this was taken by Nicholas Barbon in his "Discourse of Trade" (1690). This writer definitely condemned the balance of trade theory and thereby delivered a blow at the heart of mercantilist reasoning.

By the time that the 18th century was well under way, mercantilist ideas were distinctly losing ground. Their chief advocate during this period of decline was Sir James Steuart (1712-1780), who is sometimes called the last of the mercantilists. He is, however, credited with being the first to use, in English, the term *political economy*. In this usage we see a conscious realization that the subject which we call *economics* has developed into an independent existence.

To supplant mercantilist ideas the first constructive suggestions on a comprehensive scale came from France. As in England the reaction against bullionism and protectionism began late in the 17th century. By the early years of the 18th, the attacks had become frequent. Several noted writers, such as Marshal Vauban, Fénelon and Montesquieu criticized the older

ideas. It was perhaps Vincent de Gournay (1712-1759), appointed Intendant of Commerce in 1751, who gave the most vigorous impetus to new ideas and practices. Especially opposed to restrictions and regulations imposed on industry and trade, he translated some of the English pamphlets, such as Child's, advocating greater freedom. He devoted his efforts to abolishing French restrictions and regulations. To him is attributed the famous phrase: *Laissez faire, laissez passer*—i.e., allow trade freedom to come and go without government regulation or restriction. The effect of the liberty which he gave to French trade is described by Lavisé as marvelous. Great industrial and commercial activity followed. A group of men who accepted Gournay's ideas helped to spread them and became known as the *Commercial School* of economic thinking.

At about the time of Gournay's activity, i.e., 1755, there appeared in France an essay by an Anglo-French banker named Richard Cantillon. This essay "Upon the Nature of Commerce in General" has been called the forerunner of the science of political economy, because of its comprehensive inquiry into the nature and principles of economic phenomena. It dealt with many phases of wealth, its production and its distribution, which had been neglected by the mercantilists. Its chief significance, however, is in the influence it had upon the new group of economic thinkers called *économistes*, or *physiocrats*. At the head of the physiocrats was François Quesnay (1694-1774), who particularly emphasized the importance of the *natural* phases of life and wealth as against the

artificial and complex regulation of life, or in contrast with the systems and efforts undertaken by governments to make states rich. *Laissez faire, laissez passer* was *natural*. Let the individual look out for himself in trade; he will find out fast enough how to make profits, and if he makes profits then the community, the state, will be well off. Above all, the physiocrats stressed *agriculture*, the *natural* source of wealth, as basic in the welfare of any state. Commerce and industry are important, said Quesnay, only as they are related to agriculture. The *Produit Net* (net profit or yield) to be derived from the soil was for the physiocrats what the favorable balance of trade was for the mercantilists. The *Tableau Économique*, which Quesnay printed in 1758—a chart showing graphically the sources and distribution of wealth—was, perhaps, the first diagram of this sort. It created a tremendous effect. Some enthusiastic physiocrats hailed this Economical Table as the third great invention in history after the discovery of fire and of writing. They felt that such diagrams would lead to the solution of all the economic problems which revolutions in commerce, agriculture and industry were producing.

Revolutionary ideas were thus appearing in economic thought. Turgot, the great French statesman, who, if any single man could have done so, might have prevented the French Revolution, was much influenced by Quesnay and the physiocrats. The Marquis de Mirabeau, father of the conspicuous Revolutionary Mirabeau, was the most ardent disciple of Quesnay and devoted much of his life to the propagation of

physiocratic ideas. The interest and enthusiasm of these men, of the physiocrats and others, was derived in part from the general trend of 18th-century thought. This was the period of rationalism, when most institutions and traditions such as the church and religion, government, education and so on were being subjected to what was called the test of reason. The rationalists were attacking ideas or practices with such questions as—is this reasonable? can we prove it? is it logical? Economic ideas and practices were not immune from this attack. The work of the *économistes*, physiocrats and anti-mercantilists might indeed be regarded as an economic phase of the rationalist movement.

Most far-reaching of all these changes in ideas, however, and completing, in a way, the effects of the Commercial Revolution, is the work of Adam Smith. This celebrated Scotchman published, in 1776, "An Inquiry into the Nature and Causes of the Wealth of Nations." Definitely a landmark in the history of human thought, this book may be regarded as the foundation of the modern science of economics. Smith was influenced to some extent by the physiocrats and by English writers who, in turn, had been affected by the earlier French writers. His book effectively put an end to most mercantilist theories and provided a broad basis for the consideration of all those problems produced by the Commercial Revolution, as well as by the revolutions in agriculture and industry. Most subsequent thinking on economic subjects finds some preface or germ in Smith's ideas. Freedom—*laissez faire, laissez passer*—was accepted by him as essential for the proper development of commerce. Wealth, however, he does

not attribute solely to external or internal trade. Nor does he find, with the physiocrats, that its chief source is in agriculture and the land. In *labor*, Smith finds the most important source of wealth and the measure of value. Questions of the division of labor, wages, profits, interest, rent, money, taxation and government regulation are dealt with in his book more broadly and more tolerantly, perhaps, than had been the case with previous attempts to synthesize ideas about economic principles.

It is therefore in Adam Smith's "Wealth of Nations" that we may see the logical connection between the beginnings of the Commercial Revolution and modern economic ideas and modern commerce. With this revolution came the rise and expansion of commerce, creating new problems and new needs. To explain these new demands came mercantilism. But as the expansion of commerce continued and ever new problems occurred, mercantilism became inadequate. The physiocratic school made their contribution, but confined themselves as much to the development of a pet theory as had the mercantilists. It remained for Adam Smith to undertake a comprehensive, inclusive definition of principles upon which later modern thought could build.

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